

AGREEMENT FOR
CONSTRUCTION AND OPERATION OF
INDIAN BASIN GAS PLANT
EDDY COUNTY, NEW MEXICO

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AGREEMENT FOR
CONSTRUCTION AND OPERATION OF
INDIAN BASIN GAS PLANT
EDDY COUNTY, NEW MEXICO

THIS AGREEMENT, made and entered into this _____ day of _____, 1965, by and between the parties that execute this agreement within the time hereinafter provided (such parties being hereinafter at times referred to collectively as "Processor" or "Plant Owners"),

W I T N E S S E T H :

WHEREAS, the parties hereto are the owners of certain of the wells or interests in wells located within the Indian Basin Gas Plant Area as outlined in Exhibit "A" attached hereto, and which wells produce gas and condensate; and

WHEREAS, certain other parties, as the owners of certain wells or interests in wells located within the Indian Basin Gas Plant Area as outlined in said Exhibit "A", may elect not to join in this agreement for the construction and operation of the Plant; said parties, however, may elect to have their gas treated and processed in the Plant under a Processing Agreement on the form hereinafter provided as Exhibit "E"; and

WHEREAS, the parties hereto desire to join in the construction, ownership and operation of the Plant to gather, treat and process gas and condensate produced from the Plant Area, and the parties hereto desire to cause the gas to be delivered to the Plant by the Producer for treating, processing, and the recovery of products as hereinafter provided, and desire to return the processed gas to the Producer or to a person designated by the Producer at the outlet of the processing plant after treating and the removal of the products as hereinafter provided;

NOW, THEREFORE, in consideration of the premises and of other good and valuable considerations and of the agreements and covenants hereinafter contained, the parties hereto agree as follows:

ARTICLE I

DEFINITIONS

1. "GAS" shall mean that part of the full well stream, whether produced from gas or gas condensate formations, which remains in the gas phase at the outlet of a conventional mechanical oil and gas separator (excluding facilities utilizing low temperature, heat exchange, adsorption or similar processes).

2. "FUEL GAS" shall mean the portions of the gas delivered to the Plant which is used for plant fuel in heaters, boilers, internal combustion engines and other uses incidental to plant operations.

3. "PLANT AREA" shall mean all of that certain area located in Eddy County, New Mexico, designated as "Plant Area" on the map attached hereto and made a part hereof as Exhibit "A", which area shall be subject to revision at the time and in the manner provided hereinafter.

4. "THE PLANT" shall mean all machinery, equipment, fixtures, appliances, pipes, valves, fittings, pipeline to and from Delivery Points, and material of every nature and kind comprising the Plant to be constructed by the parties hereto as provided in Article II hereof, the Plant Site; the loading rack site; all buildings and structures of every kind to be located on the site of the Plant reasonably required for the operation of the Plant; all easements reasonably required for the operation of the Plant; water wells and water gathering system, and all appurtenances, including the gas and gas condensate

gathering systems owned by the Plant, and other facilities, equipment, machinery, and personal property deemed by the parties hereto to be necessary for the operation of the Plant.

5. "PRODUCTS" shall mean all liquid hydrocarbons or any mixture thereof or any other Plant product that the parties hereto may condense or absorb from, or separate out of, the gas that is run into and processed in the Plant, including, but not by way of limitation, natural gasoline, butanes, propane, ethane, sulphur, and other liquids and solids, excluding condensate.

6. "CONDENSATE" shall mean all liquid hydrocarbons, other than crude oil, recovered by conventional mechanical lease separation equipment (excluding low temperature, heat exchange, adsorption or similar processes) from gas wells and gas condensate wells.

7. "A CUBIC FOOT OF GAS" shall mean the volume of gas contained in one cubic foot of space at a pressure of 14.65 pounds per square inch absolute and at a temperature of sixty degrees Fahrenheit.

8. "PRODUCER" shall mean a party hereto that owns a working interest in wells or leases or by contract has the right to have the gas produced from the leases referred to in Exhibit "E" treated and processed in a plant.

9. "DELIVERY FACILITY" shall mean the facilities installed by Producer at the point on the lease at which the gas is passed through a separator, dehydrator or compressor, if installed, and by which the gas and condensate are delivered to the Plant Owners as Processor under a Processing Agreement.

10. "PLANT OPERATOR" shall mean the Plant Owner chosen by the Plant Owners to operate the Indian Basin Gas Plant and gathering systems located within the Plant Area.

11. "NON-OPERATOR" shall mean such party hereto that is not the Plant Operator.

12. "PLANT OWNER" shall mean a party who has executed this Agreement and the Processing Agreement.

13. "NON-OPERATING VOTING INTEREST" shall mean the proportion, expressed as a percentage, that the Plant interest of each party hereto (exclusive of the Plant interest of that party who is then Plant Operator) bears to the Plant interest of all parties hereto exclusive of the Plant interest of that party then designated as Plant Operator.

14. "PROCESSED GAS" shall mean that portion of the gas remaining after treatment and processing in the Plant and after shrinkage due to extraction of acid gases and plant products, plant and field losses, and use of gas for fuel in the Plant. This term shall further include gas which bypasses the Plant when bypassing occurs for any reason.

15. "PRODUCTIVE ACREAGE," for the purposes of this Agreement, until and unless revised as provided for herein, shall mean that certain area within the Plant Area designated as Productive Acreage as outlined on Exhibit "A" hereof. As to those portions of the productive acreage as to which the production therefrom is jointly owned by virtue of unit, communitization, and operating agreements, the respective productive acreage allocated to each party owning a working interest therein shall be equal to the percentage of working interest ownership allocated to the respective parties under the applicable unit, communitization, or operating agreement. Each governmental section within the Plant Area shall, for the purposes hereof, be regarded as containing 640 surface acres whether or not it contains more or less actual surface acres.

In computing "productive acreage," no additional credit shall be made for a section on which a well completed in more than one formation is located.

ARTICLE II

CONSTRUCTION OF INDIAN BASIN GAS PLANT

Plant Operator shall, with due diligence, contract with an independent contractor or contractors for the preparation of plans and specifications and the construction of the Indian Basin Gas Plant and gas gathering systems for the purpose of gathering, receiving, treating, and processing gas produced and saved from the Plant Area. Such facilities shall also include storage tanks for condensate and products and loading racks to handle and deliver the condensate and products extracted from the gas. The processing portion of the Plant process facilities shall be designed to recover in storage not less than seventy per cent of the propane, ninety-five per cent of the butanes, and essentially all of the heavier liquid hydrocarbons contained in the gas at a through put of approximately 120,000,000 cubic feet per day. All other facilities and appurtenances which the parties deem necessary for the successful operation of the Plant shall be included in such plans and specifications in construction of the Plant and gathering systems.

Upon approval of the parties hereto by voting in accordance with the procedure established in Article III, Plant Operator is authorized to execute said contract for the parties hereto for the construction of the Plant, and a performance bond may be required of the contractor, and Plant Operator shall not be responsible or liable for any act, omission, or failure of performance of said contractor or contractors, their agents, servants, or employees relative

to such construction. All other contracts for completion of other parts of the facilities or gathering system shall be made by Plant Operator after approval of the parties hereto in the same manner as the primary contract for the construction of the Plant.

Plant Operator shall have direct charge and supervision of all matters arising under the contract or contracts for this construction and all matters arising during the actual construction work and shall proceed in accordance with its best judgment, in good faith, to the end that all such work be completed with due diligence and in a workmanlike manner.

Notwithstanding anything herein to the contrary, the Plant Owners understand that it may be necessary, after construction begins, to make certain changes in previously approved plans and specifications. The Plant Operator may do so as it sees fit, providing, however, that Plant Operator shall make no major changes, or any single change requiring an additional expenditure in excess of Ten Thousand (\$10,000.00) Dollars without approval of Plant Owners voting in accordance with the provisions of Article III of this Agreement.

All parties hereto shall have the right to inspect and observe the construction work on the Plant at all reasonable times, and Plant Operator, during the construction, shall submit to each of the parties monthly reports showing the progress of the work.

Prior to the commencement of the actual construction of the Plant, Plant Operator shall purchase or acquire the surface ownership or a long-term lease on a tract of land of sufficient size and at a suitable location for the construction of the Plant. Plant Operator shall further acquire such pipeline

and other rights of way, easements, and grants as may be necessary to accomplish the purpose of this agreement. Title to the premises acquired for such purposes shall be taken in the name of Plant Operator but shall be held for the benefit of all Plant owners hereunder, including Plant Operator.

The parties hereto, in so far as they have the right to do so, hereby grant and convey unto Plant Operator all necessary pipeline and other rights of way and easements in, on, and across their respective lands and leases for laying, maintaining, operating, repairing, changing, and removing the gas gathering system, meter loops, and other equipment, and for all other purposes under this agreement so long as such purposes do not unreasonably interfere with lease operations. The cost of the acquisition of all such fee property, surface leases, rights of way, easements, and grants hereinabove mentioned shall be borne by the parties hereto in accordance with their respective undivided interests in the Plant, as hereinafter set forth.

ARTICLE III

PLANT OPERATOR AND DUTIES

Each party hereto hereby designates MARATHON OIL COMPANY as Plant Operator and authorizes it to operate the Plant, and, subject to the provisions of this agreement, Plant Operator shall have the exclusive right to operate the Plant; provided that, when questions arising hereunder are to be resolved and determinations for authorizations are to be made by a vote of the parties hereto as herein provided, Plant Operator shall be bound to follow such decisions, determinations, and authorizations of the parties hereto.

Plant Operator shall supervise the construction, operation, maintenance, alteration, or enlargement of the Plant and conduct all operations

hereunder in a good and workmanlike manner and, in the absence of specific instructions from the parties hereto or their representatives given in accordance with the procedure established herein, shall have the right and duty to act in accordance with its best judgment of what a prudent operator would do under the same or similar circumstances. Plant Operator shall freely consult with the parties hereto and shall keep the parties informed of all matters arising during the construction, operations, maintenance, alteration, or enlargement of the Plant which Plant Operator, in the exercise of its best judgment, considers important. All parties hereto shall have the right, at their own risk and expense, to observe the construction and operation of the Plant.

Plant Operator shall also specifically perform the following acts, to wit:

1. Supervise the construction of the Plant and any alterations or additions thereto.

2. Supervise all operations for the extraction, separation, and delivery of Plant Products and supervise all acts necessary to the complete performance of the "Processing Agreement" and the other contracts and agreements related hereto.

3. Operate the Plant in such a manner as to deliver to each party hereto, or its order, said party's share of the Plant Products.

4. Supervise the purchase and use of all material and supplies in connection with the construction and operation of the Plant.

5. Promptly pay and discharge all costs and expenses incurred in connection with the construction and operation of the Plant or pursuant to this agreement to take advantage of trade discounts where available.

6. The number of Plant employees, the selection of such employees, their hours of labor, and the compensation to be paid such employees shall be determined by Plant Operator, and all such employees shall be employees of Plant Operator.

7. Keep an accurate and itemized record of the accounts of the parties hereto and of all operations of the Plant and report of all expenditures made or incurred during the preceding month, together with any reasonable information required by them relating to said accounts or operations of the Plant, and extend to each party hereto the right and opportunity to examine and inspect all books and records relating to the operations of Plant Operator in connection with said Plant.

8. Furnish on or before the last day of each calendar month to each party hereto a report of operations during the preceding calendar month and a monthly statement showing the volume of gas delivered from all properties into the Plant pursuant to the Processing Agreements, the volume of each kind of product made at the Plant, the volume of each product shipped or delivered from the Plant, information relative to sales of processed gas, and such other data and information as may be necessary for proper accounting and settlement between the parties, including status of product over-and-short accounts.

9. Keep all real property and all personal property and equipment of the parties hereto free and clear of all liens and encumbrances on account of any claims arising out of operations hereunder.

10. Abide by and conform to all valid applicable laws, orders, rules, and regulations made by duly constituted governmental authorities. Make all necessary reports to governmental authorities and tax renditions and returns,

secure all necessary licenses and permits, and pay all valid applicable excise taxes and fees levied upon the Plant or its products or in connection with its operations.

11. Supervise or perform all other acts necessary to the full accomplishment of the purpose of this agreement and notify Plant Owners of all matters of importance as to the operation of the Plant.

12. Call meetings of the parties at such times as it deems necessary and at such times as two or more parties, other than Plant Operator, owning at least fifteen (15%) per cent voting interest request the calling of a meeting; provided, however, that Plant Operator shall call a meeting at least once every year.

Plant Operator or any successor Plant Operator may be discharged and its powers, rights, and duties, or any part thereof, may be terminated at any time by the owners of at least eighty (80%) per cent of the non-operating voting interest, provided such eighty (80%) per cent interest exceeds fifty (50%) per cent of the total Plant ownership, and provided further that if any party hereto owns as much as fifty (50%) per cent of the non-operating voting interest, said party must be joined by one or more parties hereto in order to discharge Plant Operator. Plant Operator also shall be discharged if it tenders its resignation, becomes insolvent, or ceases to own an interest in the Plant. If Plant Operator shall be discharged, a successor Plant Operator shall be elected from among the parties hereto by vote taken in accordance with the voting procedure hereinafter set forth in Article III. Neither Plant Operator nor any successor Plant Operator shall be released from the duties and obligations of Plant Operator for a period of one hundred twenty (120) days after

its discharge unless a successor Plant Operator shall have been elected by the parties hereto and shall have assumed the obligations of Plant Operator prior to the expiration of said period.

All matters hereunder, except as otherwise provided in this agreement, which require the approval of the parties hereto shall be referred directly to the parties for decision. A party may communicate its decision either in person and confirm by letter or by letter, telephone (and confirm by letter), or telegraph. Also, in case of disagreement as to any matter hereunder which is not specifically covered by the terms and provisions of this agreement and the determination of which is not herein otherwise specifically provided for, such matters in disagreement shall be submitted directly to the parties hereto for decision. Likewise, all powers and duties not specifically conferred upon Plant Operator or necessarily implied are reserved to the parties hereto, and such matters shall also be submitted directly to the parties hereto for decision.

Each party hereto shall have a voting interest on such matters equal to its percentage interest in the Plant as set out on Exhibit "B" as may be revised, hereto attached, and a vote of sixty-five (65%) per cent or more of such voting interest shall be binding upon all of the parties hereto; provided, however, that should any one party at time of voting own sixty-five (65%) per cent or more voting interest, its vote shall not serve to carry or approve such matters unless said vote is supported by one or more of the other parties hereto having a combined interest of at least five (5%) per cent, and provided further that should any one party at the time of voting own more than thirty-five (35%) per cent of the voting interest, its vote shall not serve to defeat or

disapprove such matters approved by the vote of parties hereto, unless said party is supported by one or more of the other parties hereto owning a combined interest of five (5%) per cent.

Notwithstanding anything herein to the contrary, it is expressly understood and agreed that, after construction of the Plant and the commencement of its operations, an affirmative vote of eighty-five (85%) per cent or more of such voting interest of the parties to this agreement shall be required to authorize any single expenditure hereunder in excess of the amount of Two Hundred and Fifty Thousand (\$250,000.00) Dollars, excluding proceeds of insurance.

In the event any party hereto fails to vote on any matter hereunder which requires the approval or decision of the parties hereto, then and in that event, such party's failure to vote shall be counted as a negative vote and shall constitute said party's disapproval of such matter.

Notwithstanding anything to the contrary in this agreement, it is specifically agreed by all parties hereto that Plant Operator shall not be held liable, except to the extent of its pro rata share as an owner, for the results of its acts or omissions performed or occurring pursuant to this agreement, if such acts or omissions are performed or occur in good faith, acting as a prudent Operator.

The parties hereto respectively agree, in the same proportions as they shall own interests in the Plant as of the time of any occurrence, mishap or accrual of causes of action, to indemnify Plant Operator, as such, from any costs, charges, losses, and damages which Plant Operator might incur in any of the operations contemplated under this contract, unless the action of Plant

Operator is founded upon bad faith or gross negligence.

ARTICLE IV

BASIS OF PARTICIPATION IN OWNERSHIP OF PLANT

1. The effective date of this Agreement shall be the first day of the first calendar month next following the execution of this Agreement and the Processing Agreement by owners of not less than sixty-five (65%) per cent of the total Plant interest as shown on Exhibit "B". All parties listed on Exhibit "B" have been invited to execute this Agreement, but if any of said parties have not executed this Agreement on or before the first day of July, 1965, they shall be deemed to have refused to have subscribed to this Agreement and thereafter no longer shall have the opportunity to execute this Agreement and become a Plant Owner as to that interest which they could have acquired on or before the above specified date, which interest is called "the unsubscribed interest." If this Agreement has then become effective, then promptly after this date of July 1, 1965, Plant Operator shall notify all parties that have executed this Agreement of the respective unsubscribed interests and the parties' respective percentages of interest in the Plant. Each party hereto shall acquire a part of the unsubscribed interest in the proportion that each such subscribers' percentage bears to the percentage of all who have become parties hereto. If this Agreement has not become effective by 7:00 A. M. on September 1, 1965, all parties executing the Agreement shall be fully released therefrom.

Promptly after all unsubscribed interests have been taken by the parties in the manner provided above, Plant Operator shall prepare and mail to each party a revised Exhibit "B", called "Exhibit 'B' - First Revision," upon

which is shown the name of all parties who have executed this agreement and the percentage of Plant ownership of each such party. This percentage shall be known as the "Basic Plant Interest" of each party.

2. Initial Period. The Initial Period shall be that period of time commencing with the effective date hereof and terminating on the date of the First Adjustment of Plant ownership.

During the Initial Period, the parties hereto shall share in the ownership of the Plant in proportion to each party's Basic Plant Interest. All products attributable to Plant Owners ("Processor") under the Processing Agreement that are recovered during the Initial Period and all operating expenses and all liabilities incurred during the Initial Period shall be owned and shall be borne by the parties hereto in proportion to their Basic Plant Interests, and said products and said operating expenses and liabilities shall not be subject to any further adjustment. All capital investments in the Plant shall be paid for by the parties hereto in proportion to the Basic Plant Interests during the Initial Period, but said capital investments shall be subject to adjustments as hereinafter provided. The term "capital investments" as used in this Agreement shall include all costs incurred in the construction, alteration, or enlargement of the Plant hereunder prior to the effective date of the Final Adjustment of Plant ownership, including but not limited to the overhead charges applicable to such costs incurred during said period, as provided in the Accounting Procedure attached hereto and made a part hereof as Exhibit "C".

As the basis of determining the initial ownership of each party in the Plant, the productive acreage, as previously defined, within the Plant Area

has been used. In so far as practicable, each person, firm, or corporation owning the right to produce gas from within the Plant Area has been given the opportunity to join in this Agreement and acquire an undivided interest in the Plant equal to the ratio between the productive acreage credited to each party and the total productive acreage credited to all parties in the entire Plant Area. The undivided Plant interest which could have been acquired by those owners of interests in productive acreage who have been given an opportunity to become Plant Owners but who have elected not to become Plant Owners, referred to as unsubscribed interest, is allocated to those parties who have executed this Agreement as provided above.

3. Adjustment of Plant Ownership. The ownership of the Plant shall be revised and adjusted on the dates and for the times and in the manner hereinafter provided:

(a) First Adjustment - First Day of the month in which deliveries of gas from the Plant are commenced.

(b) Second Adjustment - As of the first day following the expiration of the twelve calendar months immediately succeeding the First Adjustment.

(c) Final Adjustment - As of the first day following the expiration of the twelve calendar months immediately succeeding the Second Adjustment.

4. Each adjustment of Plant ownership shall be made effective at 7:00 A. M. on the dates above specified in accordance with the following procedure:

(a) Limitation. Those who own the right to produce gas from interests in productive acreage situated in the Plant Area, as defined at the

time of the determination of the Basic Plant Interest and on the date of each adjustment, who do not execute this Agreement and therefore do not acquire an interest in the Plant shall not thereafter be entitled to become Plant Owners by virtue of their ownership in such acreage or gas produced therefrom but shall be entitled to acquire ownership in the Plant by virtue of their ownership of any productive acreage lying within any extension of the Plant Area or by virtue of their ownership of any such acreage determined to be productive subsequent to the time of any such determination and lying within the Plant Area or any extension thereof in accordance with provisions hereinafter contained until the Final Adjustment has been made hereunder.

(b) Methods of Adjustment. Subject to subparagraph (a) of this paragraph, the owners of the right to produce gas from interests located within the Plant Area or any extension, or proposed extension, thereof made by the Plant Owners may request permission to participate in the ownership of the Plant pursuant to the terms and conditions of this Agreement prior to the Final Adjustment. Any such request shall be submitted in writing to the Plant Operator on or before one of the above-specified adjustment dates, and copies of each such request shall be given by the Plant Operator to all parties hereto. The parties or a committee formed under their direction shall review all such requests for the purpose of determining the feasibility of processing gas from such additional acreage and, if pertinent to any such request, whether or not the Plant Area should be extended to include any such additional acreage. If the Plant Owners determine by vote that additional acreage is to be included as productive acreage and the owners of interests therein are entitled to acquire an interest in the ownership of the Plant on the basis of such interests,

then the owners of such interests who desire to do so shall execute a ratification agreement in the form attached hereto as Exhibit "F" and shall further execute as Producer a Processing Agreement in the form attached hereto as Exhibit "E" covering its interest in such productive acreage, and thereupon each such owner shall become a party hereto as to such interest effective as of the next adjustment date. If such additional acreage to be included as productive acreage is owned by persons already parties hereto, then those parties shall be credited with that additional interest as of the next adjustment date without further execution or ratification of this Agreement or the Processing Agreement. The Plant Interest of each original owner and of each new owner shall be determined as of each adjustment date specified above by the procedures outlined below:

(1) First Adjustment. As of the effective date of the First Adjustment, each party shall own a Plant Interest equal to the ratio between the productive acreage credited to such party as of the First Adjustment date and the total productive acreage credited as of that date to all parties within the Plant Area, or an extension thereof, owning an interest in the Plant. In computing the respective interests, the unsubscribed interests allocated to the original parties shall continue to be credited to the original parties as productive acreage.

(2) Second Adjustment. As of the effective date of the Second Adjustment, each party shall own a Plant Interest equal to the percentage credited to such party of the total gas delivered to the Plant from all parties' interests within the Plant Area, including any extension thereof, during the twelve calendar month period immediately following the date of the First

Adjustment. In calculating the respective Plant Interests of the parties, those volumes of gas allocated to the unsubscribed interests taken by the original parties shall not be credited to any party nor included in the total gas volumes referred to above in this paragraph.

(3) Final Adjustment. As of the effective date of the Final Adjustment, each party shall own a Plant Interest equal to the percentage credited to such party of the total gas delivered to the Plant from all parties' interests within the Plant Area, including any extension thereof, during the twelve-month period immediately following the date of the Second Adjustment. In calculating the respective Plant Interests of the parties, those volumes of gas allocated to the unsubscribed interests taken by the original parties shall not be credited to any party nor included in the total gas volumes referred to above in this paragraph.

(4) Plant Operator shall revise Exhibit "A" and Exhibit "B" as necessary to reflect each revision of the Plant Area and Plant ownership.

(5) It is expressly agreed that in no event shall there be any retroactive adjustment of the products attributable to Plant Owners under the Processing Agreement or the operating costs and expenses incurred during the initial period or any subsequent adjustment period.

(6) As of the effective date of each adjustment of Plant ownership, all capital investments shall be adjusted to reflect the revision of the Plant ownership effective on each such date, and upon the Final Adjustment, no further adjustment of ownership of the Plant shall be made. Further, after the Final Adjustment, all products attributable to the Plant Owners shall be owned, and all costs, expenses, and liabilities of operations shall be borne, by the

parties hereto in proportion to the participation provided by the Final Adjustment of Plant ownership.

ARTICLE V

DISTRIBUTION OF COSTS AND EXPENSES

Plant Operator shall set up a Plant Account on behalf of the parties hereto, and all costs and expenses incurred by Plant Operator in the construction, operation, maintenance, alteration, and enlargement of the Plant shall be charged to such account upon the cost and expense basis set out in the Accounting Procedure attached hereto and made a part hereof as Exhibit "C".

Plant Operator shall initially pay all costs and expenses incurred in the construction, operation, maintenance, alteration, and enlargement of the Plant, and each party hereto shall reimburse Plant Operator therefor in proportion to the Plant Interest of such party as provided in Article IV herein.

Should any party hereto fail to reimburse Plant Operator for its proportionate part of said costs and expenses within thirty (30) days after being billed therefor, as provided in the said Accounting Procedure, Exhibit "C", the same shall bear interest at the rate of ten (10%) per cent per annum from the end of said period until paid, and Plant Operator shall have the right, at its option, at any time thereafter, such default continuing, to foreclose the lien hereinafter provided upon the respective interests of such party.

Plant Operator, in lieu of advancing such costs and expenses, may, at its election, require the several parties hereto to advance their respective proportions of the costs and expenses of constructing, operating, maintaining, enlarging, or altering the Plant according to the following conditions:

On or before the last day of each calendar year, Plant Operator may,

at its election, submit a request for a permanent working fund to be established in an amount equal to an average calendar month's operating expenditure, to which each individual owner would contribute on the basis of Plant ownership percentages, such permanent working fund to be based on the annual budget figures covering estimated expenditures for Plant operating expenses and investment and inventory changes, exclusive of transfers and sales of material from the Plant account. After the establishment of such permanent working fund, the individual owners will remit regularly for each month's actual billing, thus maintaining this working fund intact. The amount of the fund will be reviewed annually to determine its adequacy in relation to current costs, with any adjustments being made by refunds or by additional requests. In the event of a major addition to, or alteration of, the Plant not shown in the annual budget, a temporary advance to cover each month's estimated costs of such addition or alteration may be requested, and adjustment between the estimated costs and actual costs may be made on each month's billing.

As soon as practical, but in any event within thirty (30) days following the effective date hereof, Plant Operator shall prepare a tentative budget covering estimated expenditures for the construction, operation, maintenance, alteration, and enlargement of the Plant and gathering systems for the remainder of the calendar year and, on or before the fifteenth (15th) day of October of each year hereunder, shall prepare a tentative annual budget covering estimated expenditures for the construction, operation, maintenance, alteration, and enlargement of the Plant for the twelve (12) months' period ending on the thirty-first (31st) day of December of the succeeding year. Plant Operator shall correct the tentative budget, if necessary, at least thirty (30)

days prior to the beginning of each semiannual period. A copy of the tentative annual budget and all semiannual corrections thereof shall be mailed by Plant Operator to each party hereto. Plant Operator may proceed in such manner as it shall deem advisable, subject to the provisions hereinafter contained, and make all necessary expenditures thereunder in accordance with the said tentative budget or said corrected tentative budget, as the case may be, and Plant Operator shall not be liable to any party hereto for any act or omission resulting from its action in so proceeding unless caused in bad faith.

After the construction of the Plant and the commencement of its operation, Plant Operator shall not, without first obtaining approval of the parties hereto as provided in Article III hereof: (a) make any additions, alterations, replacements, or enlargements of the Plant which involve a single expenditure in excess of Ten Thousand (\$10,000.00) Dollars, or (b) make any change in either the operation or maintenance of the Plant as set out in a semiannual budget which involves a single expenditure in excess of ten (10%) per cent of the operating and maintenance charges in the semiannual budget.

ARTICLE VI

LIEN OF OPERATOR

Each of the parties hereto, in order to secure the payment of all amounts due or to become due by such party to Plant Operator, hereby gives and grants to Plant Operator a first and prior lien upon its undivided interest as Processor, in all Processing Agreements acquired as herein provided, its undivided interest in the Plant and in the products and in all lines, tankage, compressors, fixtures, and equipment, and all other property, tangible or intangible, of every kind and character used in connection with or incident to

the Plant, which lien may be enforced at the option of Plant Operator as a mortgage lien or as any other lien afforded by the law of the state in such cases, provided that each party hereto may, at its option, forestall the affixing of said lien by paying to Plant Operator in advance its proportionate part of the cost of constructing, operating, maintaining, altering, and enlarging the Plant.

In the event Plant Operator forecloses the lien herein provided and acquires the property or interest subject thereto at foreclosure sale, then the remaining parties hereto, including Plant Operator, shall have the obligation to purchase a proportionate part of such acquired interest or property from Plant Operator at Plant Operator's investment therein. Plant Operator shall promptly submit to the remaining parties hereto in writing a statement of the amount of its investment in such acquired interest or property, and the said remaining parties, including Plant Operator, shall have a period of thirty (30) days after receipt of said statement to pay a proportionate part of same, such proportionate part being in the ratio that the percentage of ownership of each remaining party, including Plant Operator, prior to such foreclosure, bears to the total percentage of ownership of all remaining parties, including Plant Operator, prior to such foreclosure. However, the parties, in participating in such acquisition, shall not be required to pay more than their respective proportionate parts of the amount of indebtedness covered by such foreclosure lien plus the reasonable cost to Plant Operator of foreclosing such lien and of acquiring such interest.

The lien hereby created in favor of Plant Operator shall be subject to all sales of Plant products made by the parties hereto, and in the event of

the foreclosure of the lien against the interest or property of a defaulting party, the foreclosure sale shall be made subject to existing contracts for the sale of Plant products theretofore executed by such defaulting party.

ARTICLE VII

PROCESSING AGREEMENT

Attached hereto, made a part hereof, and marked Exhibit "E" is a form of Processing Agreement. Each party hereto shall execute, as a party "Producer," a Processing Agreement in the form attached as Exhibit "E", covering said party's processing right, title, and interest in and to the gas attributable to such party produced from the Plant Area as provided in said contract. Plant Operator is hereby authorized to execute in that capacity the Processing Agreements with Plant Owners, for and in behalf of itself and each Plant Owner, and such Processing Agreements shall be the property of the Plant.

Plant Operator may, in behalf of, and with the consent of, Plant Owners, enter into a Processing Agreement, on the form attached hereto as Exhibit "E", with any person or party who is not a party to this contract but who owns contractual rights to have gas processed, covering gas and condensate produced from within the Plant Area or outside of the Plant Area; provided, that said contracts may be made only to the extent that there is plant capacity available over and above the needs of the parties hereto for processing their own gas from their own leases within the Plant Area or any extension thereof.

ARTICLE VIII

DISPOSITION OF PLANT PRODUCTS, PROCESSED GAS AND CONDENSATE

1. Plant Products. Each of the parties hereto, subject to the

rights of Plant Operator as provided in Article VI hereof, shall take in kind or market individually, its allocated portion, equal to its ownership in the Plant, of Plant products extracted and separated in the Plant.

Plant Operator shall construct and operate for and at the expense of the Plant account storage for at least five days' production of each Plant product and condensate, shipping, and loading facilities for the handling of Plant products and condensate, and each party hereto shall have the use of such storage, shipping, and loading facilities in proportion to its undivided interest in the Plant; provided, however, that any other expense incidental to taking Plant products in kind shall be borne by the taking party or parties.

2. Processed Gas and Condensate. Plant Operator shall deliver all the condensate and processed gas to the producers or their designee in accordance with the Processing Agreements.

3. Failure to Take in Kind. In the event any of the parties hereto fail to take in kind or market individually all or any part of its or their Plant products and as a result there shall be in Plant storage for the account of such party or parties a quantity of Plant products equal to or exceeding the percentage of such storage to which such party or parties are entitled, then so long as such condition continues Plant Operator shall, in order to avoid curtailing or discontinuing operations of the Plant because of such failure, dispose of such products in any manner Plant Operator sees fit, including the right to flare such products. All contracts for sale by Plant Operator under the provisions of this subsection of any party's or parties' Plant products shall be on a day-to-day basis, and the account of such party or parties shall be charged therewith as having received the same; provided, however, that

any proceeds received by Plant Operator from such disposal shall be credited to such party or parties after a reasonable and customary charge, not to exceed that then currently charged for similar services, has been deducted therefrom for making such disposition and after Plant Operator has made settlement to Producers in all Processing Agreements. Any party or parties hereto desiring to take in kind or desiring to discontinue taking in kind shall give Plant Operator written notice of such desire.

4. Losses. Each party hereto shall bear a part of any losses actually suffered due to evaporation or handling of the Plant products equal to its Plant ownership.

5. Reporting to Plant Operator. In the event any party hereto takes all or any portion of its Plant products in kind for its own use in lieu of a sale to others, then such party shall report to Plant Operator currently the quantities and value of same. The value reported to Plant Operator by such party shall not be less than the fair current market value for like products at the Plant. In the event of a sale by any party hereto of all or any portion of its Plant products, such party shall report to the Plant Operator currently the quantities and value at the Plant of such Plant products so sold.

Each of the parties hereto taking in kind or marketing individually its portion of any Plant products shall be obligated to pay and shall pay or arrange for the payment of such party's proportionate part of the payment due to the respective owners of interests therein.

ARTICLE IX

INSURANCE AND TAXES

Plant Operator shall secure and maintain for the benefit of the parties

hereto the kinds and amounts of insurance shown on Exhibit "D", INSURANCE TO BE CARRIED BY PLANT OPERATOR, attached hereto and made a part hereof, and the expense thereof shall be charged to the Plant Account. The cost of no other insurance shall be charged to the Plant Account unless the parties hereto agree thereto. The automobile public liability insurance shown in Exhibit "D" shall not be secured and maintained at the joint expense of the parties hereto on Plant Operator's exclusively owned automotive equipment but shall be so secured and maintained on any automotive equipment purchased at the joint expense of the parties hereto.

Plant Operator, upon request of any party hereto, shall obtain and furnish to such party certificates of insurance describing all policies and coverage secured by Plant Operator pursuant to this Agreement, which certificates shall contain a stipulation that no change or cancellation will be made in the policy or policies without written notice being sent to the parties hereto at least ten (10) days prior to such change or cancellation.

All actual expenditures incurred and paid by the Plant Operator in settlement of any and all losses, claims, damages, judgments and other expenses, including legal services, not covered or to the extent not covered by such insurance shall be charged to the parties hereto proportionately to their respective undivided interests in the Plant as set out in the then current Exhibit "B", hereto attached. In each instance where such costs exceed \$2,500.00, Plant Operator will immediately advise all Plant Owners of such cost and the details related thereto and obtain approval of Plant Owners before settlement is made.

All contractors (and sub-contractors) of Plant Operator in the

construction, alteration, and maintenance of the Plant shall be required to carry Workmen's Compensation and Employers' Liability Insurance in compliance with the laws of the State of New Mexico. All contractors and sub-contractors shall carry such other insurance as Plant Operator may require.

Plant Operator will render and pay the full Plant interest for ad valorem taxes and bill each party hereto through the joint account for its proportionate share.

ARTICLE X

PRIVILEGE OF PARTIES

Each party to this Agreement and its representatives duly authorized in writing shall have the right at all reasonable hours to inspect the Plant and all appurtenances thereof.

Any auditor or auditing committee may be appointed by the Non-Operators and shall certify, from a periodic inspection of Plant Operator's books of account, shipping papers and records, gauge tickets, and all other records pertaining to such accounting and settlement, or such of said records as may be required, the correctness of said accounting and settlement between the parties hereto, provided that such audits are made no more often than once each calendar year unless there is a change of Plant Operator; and Plant Operator shall make the necessary adjustments as required by said certification and proper settlement therefor among the Plant Owners if and when such adjustments, or any of them, are approved by Plant Owners. It is understood that Plant Operator shall not be required to adjust or amend, for any reason, said certification and settlement between the Plant Owners after two years have elapsed immediately following the end of the year covered by said certification.

The costs and expenses incurred by such audit of Plant Operator's records shall not be charged to the plant account, but shall be borne by the Plant Owners other than the Plant Operator in proportion that each Plant Owner's interest in the Plant bears to the total of all Plant interests of all Plant Owners, exclusive of Plant Operator. Upon receipt of a statement for the cost of the audit, Plant Operator shall bill each Non-Operator for its proportionate share and shall remit the proceeds in payment of the audit.

ARTICLE XI

TRANSFER OF PLANT INTEREST

It is expressly understood and agreed that any transfer or conveyance of an undivided interest in the Plant, regardless of the method by which such transfer or conveyance is accomplished, shall have the effect of transferring an equal undivided interest in all rights, privileges and obligations hereunder of the transferor to the transferee, including but not by way of limitation, such transferor's undivided interest in the Processor's rights in and to the Processing Agreement.

All sales, transfers, assignments, mortgages or other conveyances or encumbrances of the interest of any party hereto in said Plant shall be made expressly subject to this Agreement and shall not be binding on any of the parties hereto other than the party selling, transferring, assigning, mortgaging, encumbering or conveying the same, unless and until a certified copy of the instrument evidencing such change in ownership has been delivered to Plant Operator. Plant Operator shall advise all Plant Owners of all changes in Plant ownership and prepare and furnish to each party a revised Exhibit "B".

All such sales, transfers, assignments or conveyances of an interest

in the said Plant, whether expressly so stated or not, shall operate to impose upon the party or parties acquiring such interest its or their proportionate part of all costs and expenses and other obligations chargeable hereunder to such interest and shall likewise operate to give and grant to the party or parties acquiring such interest its or their proportionate part of all benefits accruing hereunder.

ARTICLE XII

LAWS, REGULATIONS AND FORCE MAJEURE

This Agreement and the operation of the Plant shall be subject to all valid and applicable laws, orders, rules, and regulations made by duly constituted governmental authority.

Performance under this Agreement by the parties hereto, except as to money payments, shall be excused in the event such performance is prevented by strikes, fires, floods, tornadoes, lightning, explosions, acts of God or the public enemy, state and federal regulations, injunctions or other legal proceedings based upon any claim or infringement of any United States letters patent, inability or delay in obtaining right-of-way permits, easements or material, and other happenings beyond the control of such parties, whether similar or dissimilar to the matters herein specifically enumerated or not; provided, however, that performance shall be resumed within a reasonable time after such cause has been removed, and provided further that no party hereto shall be required against its will to adjust any labor dispute.

ARTICLE XIII

TERM

This agreement shall continue in force and effect until operation of the Plant becomes unprofitable in the opinion of the parties hereto or until terminated by operation of law or agreement of the parties. If at any time future operation of the Plant is considered to be unprofitable by the owners of sixty-five (65%) per cent interest in the Plant, then Plant Operator shall cease Plant operation at the time directed by Plant Owners; provided that, if any party or parties hereto do not desire to cease Plant operation and desire to purchase the Plant intact and assume operation of it, they shall notify all other parties hereto in writing to that effect promptly after notice that the Plant is to be shut down and shall submit a cash bid for the value of the Plant, and if said bid is acceptable to the other Plant Owners desiring to sell, then the Plant shall be sold intact to said purchasing party or parties, and they shall have the right thereafter to own and operate the Plant; but if said bid is not acceptable to the other Plant Owners desiring to sell, the Plant Operator shall proceed to sell the Plant intact to the best bidder or shall sell it in parts under a salvage operation, whichever appears to the Plant Owners to be the most profitable, and shall distribute the proceeds to the parties hereto in proportion to their interest in the Plant at that time. Any Plant Owner interested in bidding on the Plant shall be furnished an invitation to bid along with any and all other bidders. However, it is expressly understood that no Plant Owner has a preferential right to purchase after the bids are solicited.

ARTICLE XIV

RELATIONSHIP OF PARTIES

It is agreed and understood that by this Agreement and operations hereunder, it is not the intention of the parties hereto to create a partnership or association, or other legal entity. The duties, obligations and liabilities of the parties hereto are intended to be separate and not joint or collective, and nothing contained in this Agreement or in any agreement made pursuant hereto shall ever be construed to create a partnership or association, or other legal entity, or to impose any duty, obligation, or liability in any such capacity with respect to any one or more of the parties hereto.

Each party shall be individually responsible only for its own obligations as set out in this Agreement and shall be liable only for its proportionate share of the cost and expenses as herein stipulated.

Whenever in this Agreement reference is made to operations for the Plant Account of the parties hereto or to charges or credits to the Plant Account, or whenever similar language is used, the parties use such language merely as a convenient method of referring to the accounting necessary between them, and it is agreed that no such phraseology shall ever be construed as creating any joint liability upon the part of the parties hereto for any obligation incurred under this Agreement, or as setting apart or creating any fund or jointly-owned property for the satisfaction of any such obligation, or as creating a common fund for any other purpose.

Any income from whatever source, due the parties hereto or any of them, and received by Plant Operator hereunder, shall be distributed or accounted for monthly to the party or parties to whom it belongs.

Each of the parties hereto elects fully and finally, under the authority of Sec. 761 (a) of the Internal Revenue Code of 1954, to be excluded from the application of all of the provisions of Subchapter K of Chapter 1 of Subtitle A of the Internal Revenue Code of 1954. If the income tax laws of the state or states in which the property covered hereby is located contain, or may hereafter contain, provisions similar to those contained in the Subchapter of the Internal Revenue Code of 1954 above referred to under which a similar election is permitted, each of the parties agrees that such election shall be exercised. If requested by the Operator so to do, each party agrees to execute and join in such an election.

ARTICLE XV

NOTICES

All notices hereunder shall be in writing to each of the parties hereto and their representatives by letter, duly stamped, and placed in the United States mail or by telegram with charges prepaid, addressed to each of them at their respective addresses. Within thirty (30) days after the date hereof, each of the parties hereto shall notify the initial Plant Operator, whose address is P. O. Box 3128, Houston, Texas, 77001, of its official address for all purposes hereunder, and Plant Operator shall thereupon notify each party hereto of such official address of each of the other parties hereto, and thereafter it shall be the responsibility of each party hereto who desires to change its official address to notify directly each of the other parties hereto of such change; and upon receipt thereof by said parties, said changed address shall be considered thereafter the official address of said party.

ARTICLE XVI

NONDISCRIMINATION

In connection with the performance of operations under this agreement, the Plant Operator agrees to comply with all of the provisions of Sec. 301 (1) to (7), inclusive, of Executive Order 10925 (26 F. R. 1977), as amended, which are hereby incorporated by reference in this agreement.

ARTICLE XVII

MISCELLANEOUS

This Agreement may be executed in any number of counterparts, or same may be ratified by separate instrument in writing referring to this Agreement, and each such counterpart or ratification so executed shall have the same force and effect as an original instrument and as if all of the parties to the aggregate of all counterparts and ratifications had signed the same document.

Only one counterpart of this Agreement executed by at least three parties need be filed for record. In lieu of recording all counterparts and ratifications hereof, Plant Operator is hereby authorized and empowered to make, certify, acknowledge and file for record a list or lists of all signers of all counterparts or ratifications which are not filed and recorded in Eddy County, New Mexico, and such list or lists, together with the counterparts and ratifications actually filed and recorded, shall be taken, considered and acknowledged for all purposes as though all such signers had duly and properly signed and acknowledged the counterpart actually of record and that all counterparts and ratifications had been duly and properly signed and acknowledged by them and duly filed and recorded in Eddy County, New Mexico.

The terms and provisions hereof shall extend to and be binding upon

the parties hereto, their successors, legal representatives, and assigns.

IN WITNESS WHEREOF, the parties hereto have executed this agreement, in multiple copies each of which shall be considered an original, as of the day and year hereinabove first written.

MARATHON OIL COMPANY

By _____

STATE OF _____ X
COUNTY OF _____ X

The foregoing instrument was acknowledged before me this _____ day of _____, 1965, by _____, _____ of MARATHON OIL COMPANY, an Ohio corporation, on behalf of said corporation.

My Commission Expires: _____ Notary Public in and for

STATE OF _____ X
COUNTY OF _____ X

The foregoing instrument was acknowledged before me this _____ day of _____, 1965, by _____, _____ of _____, a _____ corporation, on behalf of said corporation.

My Commission Expires: _____ Notary Public in and for

STATE OF _____ X
COUNTY OF _____ X

The foregoing instrument was acknowledged before me this _____ day of _____, 1965, by _____ and his wife, _____.

My Commission Expires: _____ Notary Public in and for

STATE OF _____ X
COUNTY OF _____ X

The foregoing instrument was acknowledged before me this _____ day of _____, 1965, by _____ and his wife, _____.

My Commission Expires: _____ Notary Public in and for

R 23 E

R 24 E

T 20 1/2 S

T 21 S

T 22 S

R 23 E

R 24 E

LEGEND



Plant Area



Productive Acreage

EXHIBIT "A"
SHOWING PLANT AREA
INDIAN BASIN GAS PLANT
EDDY COUNTY, NEW MEXICO

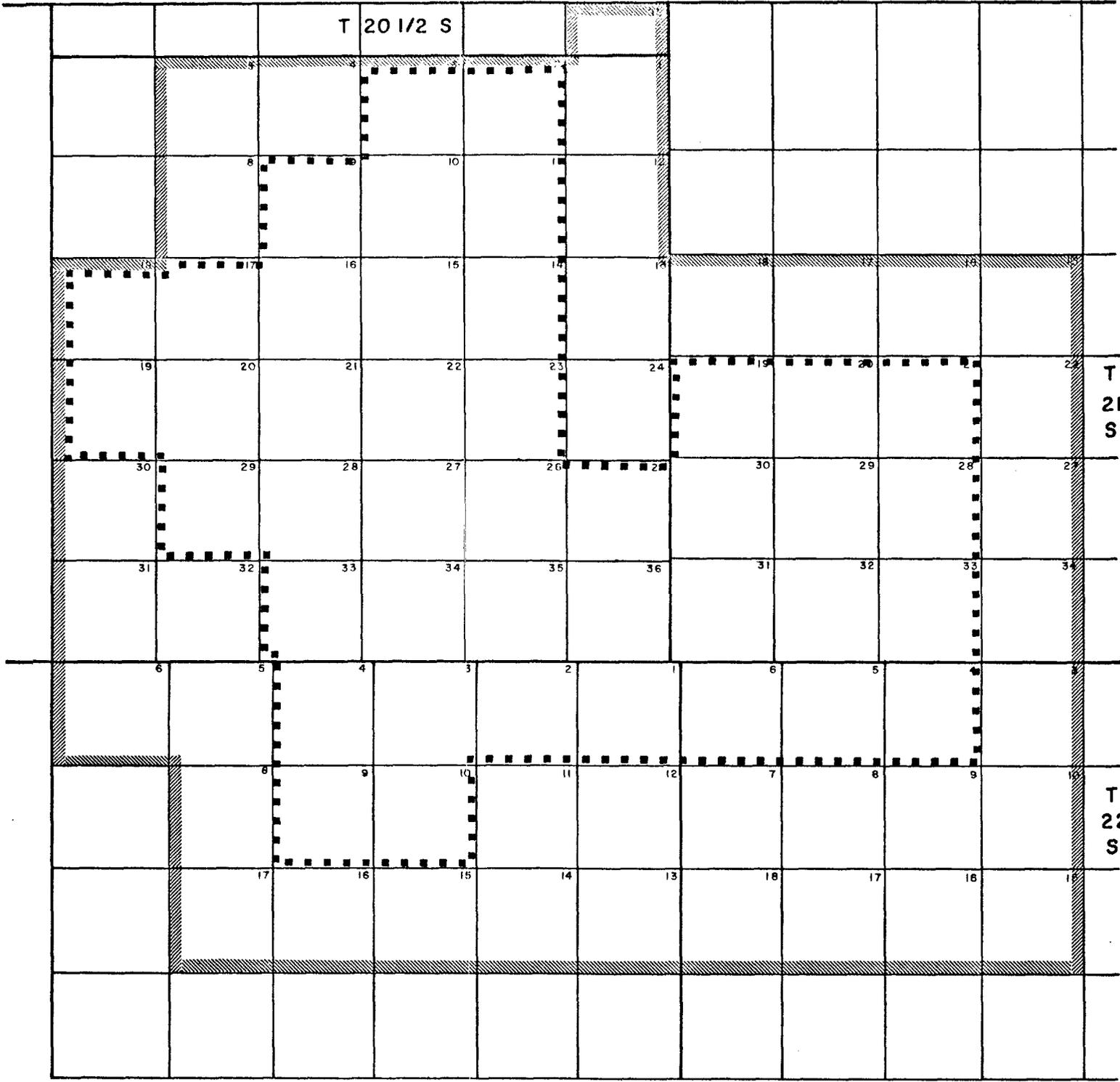


EXHIBIT "C"

Attached to and made a part of Agreement for Construction and
Operation of Indian Basin Gas Plant,
Eddy County, New Mexico.

ACCOUNTING PROCEDURE
(JOINT OPERATIONS)

I. GENERAL PROVISIONS

1. Definitions

"Joint Property" shall mean the real and personal property subject to the agreement to which this "Accounting Procedure" is attached.
"Joint Operations" shall mean all operations necessary or proper for the development, operation, protection and maintenance of the Joint Property.
"Operator" shall mean the party designated to conduct the Joint Operations.
"Non-Operators" shall mean the nonoperating parties, whether one or more.
"Joint Account" shall mean the account showing the charges and credits accruing because of the Joint Operations and which are to be shared by the Parties.
"Parties" shall mean Operator and Non-Operators.
"Material" shall mean personal property, equipment or supplies acquired or held for use on the Joint Property.
"Controllable Material" shall mean material which at the time is so classified in the Material Classification Manual as most recently recommended by the Council of Petroleum Accountants Societies of North America.

2. Conflict with Agreement

In the event of a conflict between the provisions of this Accounting Procedure and the provisions of the agreement to which this Accounting Procedure is attached, the provisions of the agreement shall control.

3. Collective Action by Non-Operators

Where an agreement or other action of Non-Operators is expressly required under this Accounting Procedure and if the agreement to which this Accounting Procedure is attached contains no contrary provisions in regard thereto, the agreement or action of a majority in interest of the Non-Operators shall be controlling on all Non-Operators.

4. Statements and Billings

Operator shall bill Non-Operators on or before the last day of each month for their proportionate share of costs and expenses, for the preceding month. Such bills will be accompanied by statements reflecting the total charges and credits as set forth under Subparagraph C below:

- A. Statement in detail of all charges and credits to the Joint Account.
- B. Statement of all charges and credits to the Joint Account, summarized by appropriate classifications indicative of the nature thereof.
- C. Statement of all charges and credits to the Joint Account summarized by appropriate classifications indicative of the nature thereof, except that items of Controllable Material and unusual charges and credits shall be detailed.

5. Payment and Advances by Non-Operators

Each Non-Operator shall pay its proportion of all such bills within fifteen (15) days after receipt thereof. If payment is not made within such time, the unpaid balance shall bear interest at the rate of ~~ten~~ per cent (10%) per annum until paid.

6. Adjustments

Payment of any such bills shall not prejudice the right of any Non-Operators to protest or question the correctness thereof; provided however, all bills and statements rendered to Non-Operators by Operator during any calendar year shall conclusively be presumed to be true and correct after twenty-four (24) months following the end of any such calendar year, unless within the said twenty-four (24) month period a Non-Operator takes written exception thereto and makes claim on Operator for adjustment. No adjustment favorable to Operator shall be made unless it is made within the same prescribed period. The provisions of this paragraph shall not prevent adjustments resulting from a physical inventory of the Joint Property as provided for in Section VII.

~~Section VIII~~

~~Operator shall have the right to credit~~
~~Operator's cost of holiday, vacation, sickness and disability benefits and other customary allowances paid to the~~
~~employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II~~
~~not more than the same~~
~~pro rata portion of the benefits and allowances herein provided for shall be charged to the Joint Account. Cost~~
~~under this Paragraph 2B may be charged on a "when and as paid basis" or by "percentage assessment" on the~~
~~amount of salaries and wages chargeable to the Joint Account under Paragraph 2A of this Section. If~~
~~percentage assessment is used, the rate shall be based on the Operator's cost experience.~~
~~Expenditures or contributions made pursuant to assessments imposed by governmental authority which are~~
~~applicable to Operator's labor cost of salaries and wages chargeable to the Joint Account under Paragraphs 2A~~
~~and 2B of this Section II.~~
~~Reasonable personal expenses of those employees whose salaries and wages are chargeable to the Joint Account~~
~~under Paragraph 2A of this Section II and for which expenses the employees are reimbursed under Operator's~~
~~usual practice.~~

II. DIRECT CHARGES

Subject to limitations hereinafter prescribed, Operator shall charge the Joint Account with the following items:

1. Rentals and Royalties

Delay or other rentals and royalties when such rentals and royalties are paid by Operator for the Joint Account of the Parties.

2. Labor

- A. Salaries and wages of Operator's employees directly engaged on the Joint Property in the conduct of the Joint Operations, and salaries or wages of technical employees who are temporarily assigned to and directly employed on the Joint Property.*
- B. Operator's cost of holiday, vacation, sickness and disability benefits and other customary allowances paid to the employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II not more than the same pro rata portion of the benefits and allowances herein provided for shall be charged to the Joint Account. Cost under this Paragraph 2B may be charged on a "when and as paid basis" or by "percentage assessment" on the amount of salaries and wages chargeable to the Joint Account under Paragraph 2A of this Section. If percentage assessment is used, the rate shall be based on the Operator's cost experience.
- C. Expenditures or contributions made pursuant to assessments imposed by governmental authority which are applicable to Operator's labor cost of salaries and wages chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II.
- D. Reasonable personal expenses of those employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II and for which expenses the employees are reimbursed under Operator's usual practice.

*Salaries and wages of engineers not temporarily assigned to and directly employed on the Joint Property performing work for the Joint Operations may be charged only after receiving approval of the Non-Operators.

3. Employee Benefits

Operator's current cost of established plans for employees' group life insurance, hospitalization, pension, retirement, stock purchase, thrift, bonus, and other benefit plans of a like nature, applicable to Operator's labor cost; provided however, the total of such charges shall not exceed ten percent (10%) of Operator's labor costs chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II, ~~and Paragraph 2 of Section III.~~

4. Material

Material purchased or furnished by Operator for use on the Joint Property. So far as it is reasonably practical and consistent with efficient and economical operation, only such Material shall be purchased for or transferred to the Joint Property as may be required for immediate use; and the accumulation of surplus stocks shall be avoided.

5. Transportation

Transportation of employees and Material necessary for the Joint Operations but subject to the following limitations:

- A. If Material is moved to the Joint Property from the Operator's warehouse or other properties, no charge shall be made to the Joint Account for a distance greater than the distance from the nearest reliable supply store or railway receiving point where like material is available, except by agreement with Non-Operators.
- B. If surplus Material is moved to Operator's warehouse or other storage point, no charge shall be made to the Joint Account for a distance greater than the distance to the nearest reliable supply store or railway receiving point, except by agreement with Non-Operators. No charge shall be made to Joint Account for moving Material to other properties belonging to Operator, except by agreement with Non-Operators.

~~Costs of transportation shall be charged to the Joint Account for the distance from the nearest reliable supply store or railway receiving point where like material is available, except by agreement with Non-Operators.~~

6. Services

- A. The cost of contract services and utilities procured from outside sources other than services covered by Paragraph 8 of this Section II, ~~and Paragraph 2 of Section III.~~
- B. Use and service of equipment and facilities furnished by Operator as provided in Paragraph 5 of Section IV.

7. Damages and Losses to Joint Property

All costs or expenses necessary for the repair or replacement of Joint Property made necessary because of damages or losses incurred by fire, flood, storm, theft, accident, or any other cause, except to the extent that the damage or loss could have been avoided through the exercise of reasonable diligence on the part of Operator. Operator shall furnish Non-Operators written notice of damages or losses incurred as soon as practicable after a report thereof has been received by Operator.

8. Legal Expense

All costs and expenses of handling, investigating and settling litigation or claims arising by reason of the Joint Operations or necessary to protect or recover the Joint Property, including, but not limited to, attorneys' fees, court costs, cost of investigation or procuring evidence and amounts paid in settlement or satisfaction of any such litigation or claims; provided, (a) no charge shall be made for the services of Operator's legal staff or other regularly employed personnel (such services being considered to be Administrative Overhead under Section III), except by agreement with Non-Operators, and (b) no charge shall be made for the fees and expenses of outside attorneys unless the employment of such attorneys is agreed to by Operator and Non-Operators.

9. Taxes

All taxes of every kind and nature assessed or levied upon or in connection with the Joint Property, the operation thereof, or the production therefrom, and which taxes have been paid by the Operator for the benefit of the Parties.

10. Insurance Premiums

Premiums paid for insurance required to be carried on the Joint Property for the protection of the Parties.

11. Other Expenditures

Any other expenditure not covered or dealt with in the foregoing provisions of this Section II, or in Section III, and which is incurred by the Operator for the necessary and proper conduct of the Joint Operations.

III. OVERHEAD CHARGES

- 1. Operator, in addition to actual costs and expenses, shall charge the Joint Account as follows:

- A. For its services in supervising the construction of the Plant, an amount equal to one and one-half per cent (1-1/2%) of the total cost of such construction during each month, continuing until construction is completed and operation is started, provided further, that Plant Operator shall have the right, at its option, to perform any portion of the actual construction work itself and to place Plant operating personnel on the job site for training and instruction prior to the time the Plant commences operation, and the cost thereof shall be considered as actual cost and shall not be covered by the said overhead charge.

- B. For its services in supervising subsequent additions to or alterations of the Plant involving an expenditure in excess of Two Thousand Five Hundred Dollars (\$2,500.00) but less than Twenty-Five Thousand Dollars (\$25,000.00), an amount equal to five per cent (5%) of the total cost of such subsequent additions or alterations and where such addition or alteration involves an expenditure in excess of Twenty-Five Thousand Dollars (\$25,000.00) but less than \$250,000.00, an amount equal to five per cent (5%) of the first \$25,000.00 plus an amount

equal to two per cent (2%) of the amount over and above Twenty-Five Thousand Dollars (\$25,000.00); and where each such addition or alteration involves an expenditure in excess of \$250,000.00, an amount equal to five per cent (5%) of the first \$25,000.00 plus an amount equal to two per cent (2%) of the next \$225,000.00 and plus an amount equal to one per cent (1%) of the amount over and above \$250,000.00.

2. For the period of the initial testing of the Plant and for the operation and maintenance of the Plant, Operator, in addition to the actual costs and expenses provided herein, shall charge the Joint Account for its services in supervising the testing, operation, and maintenance of the Plant, beginning immediately following the commencement of any such operations, an amount equal to ten per cent (10%) of the total testing, operation, and maintenance expense of said Plant each month, which shall be in lieu of all the salaries and expenses of the principal business office, division office, and district office of the Operator, providing, however, that such overhead charge shall not be less than \$1,000.00 for any one month, and further provided that the sum of said overhead charges for a calendar year shall not exceed \$24,000.00.
3. The above overhead rates may be amended from time to time by agreement between Operator and Non-Operator if in practice they are found to be insufficient or excessive.

IV. BASIS OF CHARGES TO JOINT ACCOUNT

Subject to the further provisions of this Section IV, Operator will procure all Material and services for the Joint Property. At the Operator's option, Non-Operator may supply Material or services for the Joint Property.

1. Purchases

Material purchased and service procured shall be charged at the price paid by Operator after deduction of all discounts actually received.

2. Material furnished from Operator's Warehouse or Other Properties

A. New Material (Condition "A")

- (1) Tubular goods, two inch (2") and over, shall be priced on Eastern Mill base (i. e. Youngstown, Ohio; Lorain, Ohio; and Indiana Harbor, Indiana) on a minimum carload basis effective at date of movement and f. o. b. railway receiving point nearest the Joint Property, regardless of quantity. In equalized hauling charges, Operator is permitted to include ten cents (10c) per hundred-weight on all tubular goods furnished from his stocks in lieu of loading and unloading costs sustained.
- (2) Other Material shall be priced at the current replacement cost of the same kind of Material, effective at date of movement and f. o. b. the supply store or railway receiving point nearest the Joint Property where Material of the same kind is available.
- (3) The Joint Account shall not be credited with cash discounts applicable to prices provided for in this Paragraph 2 of Section IV.

B. Used Material (Condition "B" and "C")

- (1) Material in sound and serviceable condition and suitable for reuse without reconditioning, shall be classified as Condition "B" and priced at seventy-five per cent (75%) of the current price of new Material.
- (2) Material which cannot be classified as Condition "B" but which,
 - (a) After reconditioning will be further serviceable for original function as good secondhand Material (Condition "B"), or
 - (b) Is serviceable for original function but substantially not suitable for reconditioning, shall be classified as Condition "C" and priced at fifty per cent (50%) of current new price.
- (3) Obsolete Material or Material which cannot be classified as Condition "B" or Condition "C" shall be priced at a value commensurate with its use. Material no longer suitable for its original purpose but usable for

some other purpose shall be priced on a basis comparable with that of items normally used for such other purpose.

- (4) Material involving erection costs shall be charged at applicable percentage of the current knocked-down price of new Material.

3. Premium Prices

Whenever Material is not readily obtainable at prices specified in Paragraphs 1 and 2 of this Section IV because of national emergencies, strikes or other unusual causes over which the Operator has no control, the Operator may charge the Joint Account for the required Material at the Operator's actual cost incurred in procuring such Material, in making it suitable for use, and in moving it to the Joint Property, provided, that notice in writing is furnished to Non-Operators of the proposed charge prior to billing Non-Operators for such Material. Each Non-Operator shall have the right, by so selecting and notifying Operator within 10 days after receiving notice from Operator, to furnish in kind all or part of his share of such Material suitable for use and acceptable to Operator.

4. Warranty of Material Furnished by Operator

Operator does not warrant the Material furnished. In case of defective Material, credit shall not be passed to the Joint Account until adjustment has been received by Operator from the manufacturers or their agents.

5. Equipment and Facilities Furnished by Operator

A. Operator shall charge the Joint Account for use of equipment and facilities at rates commensurate with cost of ownership and operation. Such rates shall include cost of maintenance, repairs, other operating expense, insurance, taxes, depreciation and interest on investment not to exceed six per cent (6%) per annum, provided such rates shall not exceed those currently prevailing in the immediate area within which the Joint Property is located. Rates for automotive equipment shall generally be in line with the schedule of rates adopted by the Petroleum Motor Transport Association, or some other recognized organization, as recommended uniform charges against Joint Property operations. Rates for laboratory services shall not exceed those currently prevailing if performed by outside service laboratories. Rates for trucks, tractors and well service units may include wages and expenses of operator.

B. Whenever requested, Operator shall inform Non-Operators in advance of the rates it proposes to charge.

C. Rates shall be revised and adjusted from time to time when found to be either excessive or insufficient.

V. DISPOSAL OF MATERIAL

The Operator may purchase, but shall be under no obligation to purchase, interest of Non-Operators in surplus Condition "A" or "B" Material. The disposition of surplus Controllable Material, not purchased by Operator, shall be subject to agreement between Operator and Non-Operators, provided Operator shall dispose of normal accumulations of junk and scrap Material either by transfer or sale from the Joint Property.

1. Material Purchased by the Operator or Non-Operators

Material purchased by either the Operator or Non-Operators shall be credited by the Operator to the Joint Account for the month in which the Material is removed by the purchaser.

2. Division in Kind

Division of Material in kind, if made between Operator and Non-Operators, shall be in proportion to the respective interests in such Material. The Parties will thereupon be charged individually with the value of the Material received or receivable. Proper credits shall be made by the Operator in the monthly statement of operations.

3. Sales to Outsiders

Sales to outsiders of Material from the Joint Property shall be credited by Operator to the Joint Account at the net amount collected by Operator from vendee. Any claim by vendee related to such sale shall be charged back to the Joint Account if and when paid by Operator.

VI. BASIS OF PRICING MATERIAL TRANSFERRED FROM JOINT ACCOUNT

Material purchased by either Operator or Non-Operators or divided in kind, unless otherwise agreed to between Operator and Non-Operators shall be priced on the following basis:

1. New Price Defined

New price as used in this Section VI shall be the price specified for New Material in Section IV.

2. New Material

New Material (Condition "A"), being new Material procured for the Joint Property but never used, at one hundred per cent (100%) of current new price (plus sales tax if any).

3. Good Used Material

Good used Material (Condition "B"), being used Material in sound and serviceable condition, suitable for reuse without reconditioning:

- A. At seventy-five per cent (75%) of current new price if Material was charged to Joint Account as new, or
- B. At sixty-five per cent (65%) of current new price if Material was originally charged to the Joint Account as secondhand at seventy-five percent (75%) of new price.

4. Other Used Material

Used Material (Condition "C"), at fifty per cent (50%) of current new price, being used Material which:

- A. Is not in sound and serviceable condition but suitable for reuse after reconditioning, or
- B. Is serviceable for original function but not suitable for reconditioning.

5. Bad-Order Material

Material (Condition "D"), no longer suitable for its original purpose without excessive repair cost but usable for some other purpose at a price comparable with that of items normally used for such other purpose.

6. Junk Material

Junk Material (Condition "E"), being obsolete and scrap Material, at prevailing prices.

7. Temporarily Used Material

When the use of Material is temporary and its service to the Joint Property does not justify the reduction in price as provided for in Paragraph 3 B of this Section VI, such Material shall be priced on a basis that will leave a net charge to the Joint Account consistent with the value of the service rendered.

VII. INVENTORIES

The Operator shall maintain detailed records of Material generally considered controllable by the Industry.

1. Periodic Inventories, Notice and Representation

At reasonable intervals, inventories shall be taken by Operator of the Joint Account Material, which shall include all such Material as is ordinarily considered controllable. Written notice of intention to take inventory shall be given by Operator at least thirty (30) days before any inventory is to begin so that Non-Operators may be represented when any inventory is taken. Failure of Non-Operators to be represented at an inventory shall bind Non-Operators to accept the inventory taken by Operator, who shall in that event furnish Non-Operators with a copy thereof.

2. Reconciliation and Adjustment of Inventories

Reconciliation of inventory with charges to the Joint Account shall be made, and a list of overages and shortages shall be jointly determined by Operator and Non-Operators. Inventory adjustments shall be made by Operator with the Joint Account for overages and shortages, but Operator shall be held accountable to Non-Operator only for shortages due to lack of reasonable diligence.

3. Special Inventories

Special inventories may be taken whenever there is any sale or change of interest in the Joint Property. It shall be the duty of the party selling to notify all other Parties as quickly as possible after the transfer of interest takes place. In such cases, both the seller and the purchaser shall be governed by such inventory.

EXHIBIT "D"

INSURANCE TO BE CARRIED BY PLANT OPERATOR

A. Plant Operator, during the term of the Agreement to which this exhibit is attached, shall carry or provide for the benefit of all Plant Owners the following kinds and not less than the following amounts of insurance:

1. Workmen's Compensation Insurance as required by the laws of the State of New Mexico and Employer's Liability Insurance with a minimum of \$100,000.00 per accident.
2. Comprehensive General Liability Insurance covering all operations pursuant to or in connection with this contract, including any and all amendments or changes, with minimum limits of \$100,000.00 as to any one person and \$300,000.00 as to any one accident and property damage liability of \$100,000.00 each accident and \$200,000.00 aggregate.
3. Automobile Public Liability Insurance, in the event jointly-owned vehicles are used, with minimum limits for bodily injury of \$100,000.00 as to any one person and \$300,000.00 as to any one accident and for property damage of \$100,000.00 each accident and \$200,000.00 aggregate.
4. Fire and Extended Coverage after acceptance of Plant from Contractor in an amount equal to the full insurable value of buildings, equipment, and other items comprising the Plant and liquid products stocks.
5. Boiler Insurance with a limit of \$500,000.00 per accident.
6. Other insurance which may be required by law.

All policies of insurance providing coverage hereunder shall be endorsed to preclude all rights of subrogation against Plant Owners.

B. All Contractors performing work under this Agreement shall be required to carry the following insurance:

1. Workmen's Compensation Insurance as required by the laws of the State of New Mexico, and Employer's Liability Insurance with limits of \$100,000.00.
2. Comprehensive General Liability Insurance covering all operations pursuant to or in connection with this contract, including any and all amendments or changes, with minimum limits of \$100,000.00 as to any one person and \$300,000.00 as to any one accident and property damage liability of \$100,000.00 each accident and \$200,000.00 aggregate.

3. Automobile Public Liability Insurance with minimum limits for bodily injury of \$100,000.00 as to any one person and \$300,000.00 as to any one accident and for property damage of \$100,000.00 each accident and \$200,000.00 aggregate.
4. Contractual Liability Insurance covering all liability for bodily injury and property damage assumed by Contractors, with the same minimum limits required in No. 2 above.
5. During the Plant construction, Contractor or Plant Operator shall carry Builders' Risk Insurance, naming Contractor and Plant Owners as insureds, in an amount equal to the contract price and with a maximum of \$1,000.00 deductible, covering loss or damage from any cause whatever to (a) all improvements, constructed or under construction pursuant to the contract, including any and all amendments and changes thereto, and (b) all materials and equipment furnished by Plant Owners, Contractor, or otherwise for use for or in connection with performance of the contract, including any and all amendments and changes hereto, and including coverage of materials in transit.
6. Other insurance as may be required by law.

All policies of insurance providing coverage required hereunder shall be endorsed so as to preclude all rights of subrogation against Plant Owners.

End of Exhibit "D"

RATIFICATION OF AGREEMENT FOR
CONSTRUCTION AND OPERATION OF
INDIAN BASIN GAS PLANT,
EDDY COUNTY, NEW MEXICO

Under date of _____, 1965, MARATHON OIL COMPANY and others executed and entered into that certain Agreement for Construction and Operation of Indian Basin Gas Plant, Eddy County, New Mexico, for the purpose of constructing, owning and operating the Indian Basin Gas Plant to gather, treat and process gas and condensate produced from the Plant Area, as defined in said Agreement, and said Agreement provides for the execution thereof in counterpart or by the ratification thereof by those eligible parties desiring to participate in the construction, ownership and operation of the Indian Basin Gas Plant.

NOW, THEREFORE, the undersigned, being eligible to become a party to said Agreement in accordance with the terms and provisions thereof, does hereby ratify, confirm and adopt the Agreement for Construction and Operation of Indian Basin Gas Plant, Eddy County, New Mexico, including the Exhibits annexed thereto, and this Ratification shall have the same effect as though the undersigned had executed the original or a counterpart of said Agreement to the same extent as if the undersigned had executed the said Agreement on the date thereof.

IN WITNESS WHEREOF, the undersigned has executed this instrument on the date hereinafter set opposite its signature and hereby binds itself and its respective heirs, representatives, successors and assigns.

Date:

STATE OF _____ X
COUNTY OF _____ X

The foregoing instrument was acknowledged before me this _____ day of _____, 1965, by _____, _____ of _____, a _____ corporation, on behalf of said corporation.

My Commission Expires: _____

STATE OF _____ X
COUNTY OF _____ X

The foregoing instrument was acknowledged before me this _____ day of _____, 1965, by _____, _____ of _____, a _____ corporation, on behalf of said corporation.

My Commission Expires: _____

STATE OF _____ X
COUNTY OF _____ X

The foregoing instrument was acknowledged before me this _____ day of _____, 1965, by _____ and his wife, _____.

My Commission Expires: _____ Notary Public in and for

STATE OF _____ X
COUNTY OF _____ X

The foregoing instrument was acknowledged before me this _____ day of _____, 1965, by _____ and his wife, _____.

My Commission Expires: _____ Notary Public in and for

GAS PROCESSING AGREEMENT
INDIAN BASIN GAS PLANT
EDDY COUNTY, NEW MEXICO

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GAS PROCESSING AGREEMENT
INDIAN BASIN GAS PLANT
EDDY COUNTY, NEW MEXICO

THIS AGREEMENT, made and entered into this _____ day of _____, 1965, by and between MARATHON OIL COMPANY, as Operator of the Indian Basin Gas Plant, and in behalf of all owners of interests in the Indian Basin Gas Plant, hereinafter collectively referred to as "Processor," and _____, hereinafter referred to as "Producer,"

W I T N E S S E T H :

WHEREAS, Producer, as the owner of certain gas rights in the Plant Area, has entered into an agreement, hereinafter referred to as "Gas Sales Contract," dated _____, with _____, hereinafter referred to as "Gas Purchaser," and has reserved the right to process or have processed the gas prior to delivery to Gas Purchaser; and,

WHEREAS, Producer desires that Processor process the gas of Producer for the purpose of treating the same to comply with the specifications of the said Gas Sales Contract and for the purpose of extracting liquefiable hydrocarbons and non-hydrocarbons from the gas;

NOW, THEREFORE, for and in consideration of the premises and other good and valuable consideration, the parties agree as follows:

1.0 DEFINITIONS

For the purposes of this Agreement, the following definitions shall be applicable:

1.1 The term "gas" shall mean that part of the full well stream,

whether produced from gas or gas condensate formations, which remains in the gas phase at the outlet of a conventional mechanical oil and gas separator (excluding facilities utilizing low temperature, heat exchange, adsorption or similar processes).

1.2 The term "condensate" shall mean all liquid hydrocarbons, other than crude oil, recovered by conventional mechanical lease separation equipment (excluding facilities utilizing low temperature, heat exchange, adsorption or similar processes) from gas wells and gas condensate wells.

1.3 The term "Gas Plant" or "Plant" shall mean that certain plant treating and processing the gas and stabilizing the condensate delivered by Producer and others to Processor at the delivery points hereunder, and such term shall include the plant site and all machinery, equipment, fixtures, appliances, pipes, valves, fittings, pipelines, and materials of every nature and kind acquired, installed, and used for gathering and delivering gas and condensate and extracting hydrocarbons from the gas to be processed; all buildings and structures of every kind reasonably required for the operation of the Plant; all rights-of-way and easements reasonably required for the operation of the Plant; water wells and water gathering system; and all other facilities and appurtenances necessary for the operation of the Plant.

1.4 The term "plant products" shall mean all liquefiable hydrocarbons, stripped, absorbed, extracted, and recovered from the gas processed in the Gas Plant, including, but not limited to, ethane, propane, butanes, and pentanes and heavier hydrocarbons, or any mixture thereof, but excluding condensate, and products lost or consumed as fuel in the operation of the Plant.

1.5 The term "Gas Sales Contract" shall mean that certain contract

by and between Producer and the gas purchaser relating to the sale of gas produced from or attributable to Producer's leases, which leases are described in said Gas Sales Contract; a copy of such contract has been furnished to Processor.

1.6 The term "Plant Area" shall mean all of that certain area located in Eddy County, New Mexico, designated as "Plant Area" on the map attached hereto and made a part hereof as Exhibit "A", which area shall be subject to revision from time to time by Processor.

1.7 The term "leases" shall mean all properties or interests therein under which Producer holds gas rights and owns gas attributable thereto which are committed to the Gas Sales Contract or any extension, amendment, or substitution therefor.

1.8 The term "Plant inlet" shall mean the connection at the outlet side of the Plant Inlet Separator installed hereunder by Processor within the plant boundaries.

1.9 The term "Plant outlet" shall mean the connection at the outlet side of the processed gas measurement meter.

1.10 The term "processed gas" shall mean that portion of the gas remaining after treatment and processing in the Plant and after shrinkage due to extraction of acid gases and plant products, plant and field losses, and use of gas for fuel in the Plant.

1.11 The term "MCF" shall mean one thousand (1,000) cubic feet.

2.0 QUANTITY

2.1 Subject to the reservations presently contained in the Gas Sales Contract other than the right to process gas, Producer agrees to deliver all gas and condensate produced from or attributable to the leases to Processor

for treatment, processing of gas, and stabilization of condensate in the Plant. The gas and condensate delivered by Producer shall be delivered without any prior processing except by lease separation and dehydration facilities which shall be installed at or near the well by Producer. Subject to the reservations hereunder, Producer grants to Processor the right to use, free of all cost, all gas reasonably required in the maintenance and operation of the Plant for fuel and incidental loss.

2.2 Processor agrees to receive and process all gas delivered hereunder by Producer; provided, however, that it is agreed and understood that during any period when the volume of gas or condensate delivered by Producer and others for processing or stabilization in the Plant is in excess of the capacity of the Plant, Processor shall be obligated to process or stabilize ratably only such volumes up to capacity of the Plant. All gas delivered and treated but not processed shall be bypassed around the Plant after the removal of condensate. Processor may, but need not, install additional facilities to process all gas available for processing.

2.3 As used in Section 2.2, the term "ratably" shall be construed to mean that the volumes referred to in Section 2.2 shall be processed or stabilized on the basis of the respective minimum quantities which each Producer delivering gas to the Plant is required to deliver under its Gas Sales Contract unless prorationing rules are applicable to the pool or pools from which gas is being delivered, in which latter event, such volumes shall be based upon the established well allowables.

3.0 DELIVERY OF GAS AND CONDENSATE FOR TREATING AND PROCESSING

3.1 Producer agrees to deliver gas and condensate to be treated,

processed and stabilized in the Plant at a delivery point specified by Processor at the discharge side of the lease facilities to be installed by Producer hereunder.

3.2 The gas shall be delivered by Producer to Processor hereunder at such pressures as Processor may request, but in no event shall such required pressure exceed that required to enable Processor, after gathering, treating, processing, and transporting of gas, to make deliveries for the account of Producer or others under the terms of a gas sales contract at a maximum pressure of one thousand (1,000) p.s.i.g. In no event, however, shall the average pressure drop exceed ten (10) pounds per square inch per mile in the gas gathering pipeline.

3.3 Deliveries of gas and condensate hereunder shall commence within ninety (90) days following completion of all necessary facilities and deliveries of gas to the pipeline purchaser have commenced.

3.4 Neither Producer nor Processor shall be obligated to install and operate compression facilities in order to deliver or receive gas hereunder, but either may do so at its option. Should any gas require the installation and operation of compression facilities in order to make deliveries of such gas hereunder, then Producer shall notify Processor in writing that compression is necessary and inform Processor as to which election it has made, either to install or not to install such facilities prior to the delivery point hereunder. Upon such notification, if Producer elects not to install compression facilities, then Processor may install such facilities after the delivery point hereunder and shall thereafter be entitled to and shall charge Producer a compression charge as to all gas requiring compression delivered by Producer, equal to an

amount in cents per MCF of gas delivered requiring compression, required for the recovery by Processor of its entire cost for the installation and operation of such facilities.

4.0 CHARACTERISTICS OF PLANT

4.1 Processor is now constructing or is now operating a gas treating and processing plant located in the Indian Basin Field, Eddy County, New Mexico, for the treating and processing of gas delivered by Producer hereunder and others.

4.2 The Plant is designed to treat and process a maximum of 150,000 MCF of gas per day and has a design absorber maximum working pressure of one thousand one hundred (1,100) pounds per square inch gauge. Processor shall guarantee that the maximum pressure drop between the plant inlet and the plant outlet shall not exceed fifty (50) pounds per square inch at a gas throughput of 120,000 MCF per day.

4.3 The Plant is designed to recover a minimum of seventy (70%) per cent of the propane, ninety-five (95%) per cent of the butanes, and substantially all of the pentanes and heavier hydrocarbons within the boiling range of natural gasoline which are contained in the gas delivered hereunder when operating at 120,000 MCF per day.

5.0 SPECIFICATIONS

5.1 After processing, the gas shall meet the following specifications:

5.1.1 Have a gross heating value of at least one thousand (1,000) British thermal units per cubic foot saturated with water vapor at a temperature of sixty degrees (60°) Fahrenheit and at an absolute pressure

equivalent to thirty inches (30") of mercury at thirty-two degrees (32°) Fahrenheit, provided the gas delivered to Processor had a gross heating value of at least one thousand (1,000) British thermal units when delivered.

5.1.2 Not contain more than twenty (20) grains of total sulphur, nor more than one-fourth (1/4) grain of hydrogen sulphide, per one hundred (100) cubic feet.

5.1.3 Not contain more than three (3%) per cent by volume of carbon dioxide.

5.1.4 Not contain more than seven (7) pounds of water per one million (1,000,000) cubic feet.

5.1.5 Have a temperature of not more than one hundred twenty degrees (120°) Fahrenheit when delivered to Gas Purchaser.

5.1.6 Have a hydrocarbon dew point not higher than forty degrees (40°) Fahrenheit at a gauge pressure of one thousand (1,000) pounds per square inch.

5.2 The processed gas attributable to the gas delivered hereunder by Producer shall be delivered for and on behalf of Producer by Processor at Processor's expense to the Gas Purchaser under such contract at a delivery point in the immediate vicinity of Processor's Plant.

5.3 The condensate stabilized in the Plant shall be merchantable, commercially free of water and other objectionable material, and shall have a Reid vapor pressure of not less than six (6) pounds nor more than twelve (12) pounds, such vapor pressure being as designated and agreed upon by Plant Owners.

6.0 CONDENSATE SEPARATION

6.1 Producer shall provide a lease separation unit at Producer's

gas and condensate delivery point as set out in 3.1 hereof for the separation and measurement of water and condensate from the full well stream delivered.

6.2 The gas, condensate, and water delivered from the lease separator to the Plant shall each be measured as hereinafter provided.

6.3 The condensate and produced water will be recombined by Processor in the gathering system and delivered to the Plant separately from the gas. The condensate shall be separated from produced water at the Plant. Further, at the Plant, the gas shall be passed through the Plant inlet separator for the removal of condensate without the application of any heat either prior to or during separation. The condensate shall be stabilized by removing by fractionation the normal butane and lighter hydrocarbons contained therein (subject to the vapor pressure limitations as set forth in Section 5.3 herein) and then delivered into condensate storage. Such stabilized condensate shall be and remain the property of Producer; provided, however, that such condensate shall be commingled with other condensate in the Plant, and Producer's condensate will be the applicable portion of the commingled whole as determined in Section 8.1 herein. Processor shall provide storage for not more than five (5) days' production of condensate. The normal butane and lighter hydrocarbons removed in stabilization of the condensate will be compressed and processed with the gas delivered to the Plant.

6.4 Producer shall have the right, obligation and privilege of receiving in kind and separately disposing of his or its portion of the stabilized condensate attributable to the condensate delivered by Producer. Such share of the stabilized condensate shall be delivered to the Producer in storage tanks provided by Processor pursuant to Paragraph 6.3 or, at Producer's

election, into storage tanks furnished by Producer. Subject to the foregoing provisions of this Section, Processor is given authority to market the stabilized condensate attributable to condensate delivered by Producer; provided, however, that such authority to market so vested in Processor shall be revocable by Producer at the will of Producer, and Producer agrees to be bound by the terms of any contract made by Processor for the sale of Producer's share of the stabilized condensate, but such contract shall not exceed such reasonable periods of time as are consistent with the minimum needs of the industry under the circumstances and in no event shall be longer than a period of one (1) year. In the event of any sale pursuant to the foregoing authority, Processor shall use its best efforts to obtain the most favorable price, terms, and conditions for the sale of such condensate.

7.0 MEASUREMENT AND TESTING

7.1 The measurement of the condensate and water produced in the lease separator shall be governed by the following:

7.1.1 The volume of condensate and water shall be measured by metering separators of standard manufacture, acceptable to Processor, installed by Producer at its cost and expense suitable for separating and measuring condensate and water. The quantity of condensate and water measured shall be determined from readings of the meter dials at the beginning and end of any accounting period and use of proper meter correction factor as determined by latest test. Processor shall have the right at its cost and expense to install and maintain check meters in series with Producer's meter.

7.1.2 The unit of volume for purposes of measurement shall be a United States gallon containing two hundred thirty-one (231) cubic inches.

Volumes of condensate delivered shall be corrected to a base temperature of sixty degrees (60°) Fahrenheit, in accordance with ASTM-IP Petroleum Measurement Tables, ASTM Designation D-1250.

7.1.3 Processor shall test and calibrate the meters, or cause the same to be tested and calibrated, at intervals of three (3) months, or more often if found necessary. The apparatus and method specified in API meter Code No. 1101, or as otherwise mutually agreed upon, shall be used in making such tests. Such tests and calibrations shall be made regularly on the first day of each three (3) month period or as near thereto as practicable. Producer shall be afforded the opportunity to have a representative present to witness all such tests and calibrations, but if Producer fails to have a representative present, the results of the test shall, nevertheless, be considered accurate until the next tests are made. Processor shall, immediately following any test, restore, or cause to be restored, to a condition of accuracy any metering equipment found to be inaccurate. All tests shall be made at Processor's expense, except that Producer shall bear the expense of tests made at its request if an inaccuracy is found of one (1%) per cent or less.

If any such test shows any meter to be more than one (1%) per cent inaccurate, so that the amount of condensate passing through any such meter since the last day of calibration cannot be ascertained or computed from a reading thereof, the quantity delivered during such period shall be measured by Processor's check meter if said check meter has been installed and is accurately registering. If such check meter has not been installed, or if it is out of service, out of repair, or registering fast or slow in excess of one (1%) per cent, then such quantity shall be estimated and agreed upon by the parties

hereto on the basis of the best data available, using whichever of the following methods is feasible: (i) by correcting the error after the percentage of error is ascertained by calibration, test or mathematical calculation for the period of such error, if known, or, if unknown, for a period extending back one-half of the time since the last day of calibrations, and (ii) by such other method as may be agreed upon by the parties hereto.

7.2 The measurement and testing of gas at the lease separator outlet and plant outlet shall be governed by the following:

7.2.1 The volumes shall be measured at the lease separator outlet and plant outlet by orifice meters, equipped with flange type connections and chart cycle not to exceed eight (8) days, installed and operated, and computations made, as prescribed in Gas Measurement Committee Report No. 3 of the American Gas Association as such report may be amended or revised from time to time.

7.2.2 The unit of volume for purposes of measurement shall be one (1) cubic foot of gas at a temperature base of sixty degrees (60°) Fahrenheit and at a pressure base of fourteen and sixty-five hundredths (14.65) pounds per square inch absolute, and the atmospheric pressure shall be assumed to be thirteen and one-tenth (13.1) pounds per square inch, unless otherwise required by law, regardless of variations in atmospheric pressure.

7.2.3 The arithmetical average of the temperature recorded while gas is flowing, the factor for specific gravity according to the latest test therefor, and the corrections for deviation from Ideal Gas Laws applicable during each day shall be used to make proper computations of volumes hereunder. Chart integration and volume computations shall be made by Processor

as accurately as possible and within the accuracy prescribed by the manufacturer of the computing equipment used.

7.2.4 Temperature shall be determined by a thermometer used and installed so as to properly indicate the temperature of the gas flowing through the meter.

7.2.5 Specific gravity shall be determined with accuracy to nearest one thousandth by taking samples of the gas at the measurement points at such times as may be required, but not more often than once each month and not less often than once each three (3) months, at as near equal intervals as possible, and having the specific gravity determined by the use of the gravity or density type balance or any other instrument mutually agreeable and acceptable to the industry.

7.2.6 Deviation from Ideal Gas Laws at the pressures, specific gravity and temperatures upon delivery shall be determined by Processor by the use of the American Gas Association deviation tables based upon the specific gravity method, published June, 1955, as amended or supplemented from time to time. Each test shall determine the corrections to be used in computing volumes until the next test is made. The combined Reynolds number and expansion factor and the manometer factor shall be assumed to be one (1). Tests to determine sulphur and hydrogen sulphide content shall be made by approved standard methods in general use by the gas industry.

7.2.7 Except as specified otherwise herein, all measuring and testing equipment, housing, devices, and materials shall be of standard manufacture and type and shall, with all related equipment, appliances, and buildings, be installed, maintained, and operated or furnished by Processor at

Processor's expense. Producer shall have the right at its cost and expense to install and maintain check meters in series with Processor's meters.

7.2.8 The accuracy of the gas measuring equipment shall be verified by Processor at least once each three (3) months. Fifteen (15) days' prior notice of the time and nature of each test shall be given by Processor to Producer. Tests and adjustments shall be made in the presence of and observed by representatives of both Processor and Producer, if present. If, after notice, Producer fails to have a representative present, the results of the tests shall, nevertheless, be considered accurate until the next tests are made. All tests shall be made at Processor's expense, except that Producer shall bear the expense of tests made at its request if an inaccuracy is found of two (2%) per cent or less.

If at any time any of the gas measuring or testing equipment is found to be out of service or registering inaccurately in any percentage, it shall be adjusted at once to read accurately, within the limits prescribed by the manufacturer. If such equipment is out of service or inaccurate by an amount exceeding two (2%) per cent at a reading corresponding to the average rate of flow for the period since the last preceding test, the previous readings of such equipment shall be disregarded for any period definitely known or agreed upon to be in error, or if not so known or agreed upon, for a period of one-half of the elapsed time since the last test. The volume of gas measured during such period shall be estimated by (a) using the data recorded by any check measuring equipment if installed and accurately registering, or if not installed or registering accurately, (b) by correcting the error if the percentage of error is ascertainable by calibration, test or mathematical calculation,

or, if neither such method is feasible, (c) by estimating the quantity or quality measured, based upon deliveries under similar conditions during a period when the equipment was registering accurately. No correction shall be made for recorded inaccuracies of two (2%) per cent or less.

Producer and Processor shall have the right to inspect equipment installed or furnished by the other, and the charts and other measurement or testing data of the other, at all times during business hours; but the reading, calibration, and adjustment of all gas metering equipment and changing of charts shall be done only by the party installing and furnishing the same. Each party shall preserve all original test data, charts, and other similar records in such party's possession for a period of at least three (3) years. Upon request of Producer, Plant Operator shall submit the records and charts from any measuring equipment together with calculations therefrom for such Producer's inspection and verification, subject to return to Plant Operator within twenty (20) days from the receipt thereof.

7.3 The quantity of specified hydrocarbon components of the lease separator gas delivered by Producer shall be determined by the following:

7.3.1 Processor shall obtain semiannually representative samples of the lease separator gas delivered, which shall be in sufficient quantity to allow a check test if desired.

Samples shall be analyzed in Processor's laboratory, or commercial laboratory of Processor's choosing, in presence of Producer's representative if Producer desired to have representative present.

7.3.2 Samples shall be analyzed by low temperature fractionation, mass spectrometer, infrared spectrometer, vapor chromatograph, or other

method acceptable in the industry, to determine the molecular percentage of each of the following as may be present: (1) hydrogen sulfide, (2) carbon dioxide, (3) nitrogen, (4) methane, (5) ethane, (6) propane, (7) isobutane, (8) normal butane, and (9) pentanes and heavier hydrocarbons. The total quantity of each of the aforementioned components shall be determined from such analysis. Processor shall, upon request, furnish Producer with each such fractional analysis.

8.0 ALLOCATION OF PLANT PRODUCTION

8.1 The stabilized condensate recovered in the stabilized condensate storage tanks shall be allocated among the various producers delivering condensate to the Plant. The quantity of stabilized condensate allocated to Producer shall be determined from the proportion that the quantity of condensate delivered by such Producer, as measured at the outlet of the lease separation unit, bears to the total condensate delivered by all producers, as measured at the outlet of the respective lease separation unit. The formula to be used in making such calculation and an example are given in Exhibit "B" attached.

8.2 The quantity of plant products produced, saved, and sold in the Plant, attributable to gas delivered hereunder by Producer, shall be determined from the analyses specified in Section 7.3 of this Agreement. An allocation of each of the following listed products or any mixtures thereof shall be determined from the respective proportions that the quantity of each such product contained as a component in the lease separator gas delivered by Producer bears to the total quantity of each such respective product contained in the lease separator gas delivered by all producers: (1) propane, (2) isobutane, (3) normal butane, and (4) pentanes and heavier hydrocarbons. The formula to be

used in making such calculations and an example are given in Exhibit "B" attached.

8.3 The processed gas, as determined by measurement at the plant outlet, shall be allocated among the various producers delivering gas to the Plant for processing. Producer shall have the right, obligation and privilege of receiving in kind and separately disposing of his or its allocated portion of the processed gas. The quantity of processed gas allocated to Producer shall be determined from the proportion that the quantity of nitrogen, methane and ethane contained as components of the separator gas delivered by such Producer as measured at the outlet of the lease separator unit bears to the total quantity of such components contained in the separator gas delivered by all producers, as measured at the outlet of the respective lease separation units. Gas delivered to Processor but which bypasses the Plant after treatment, or which is untreated with approval of the gas purchaser, shall be allocated in the same manner as processed gas. The formula to be used in making such calculation and an example are given in Exhibit "B" attached.

8.4 It is recognized that there will be some loss in gas volume from the processing, between the total volume of gas entering the Plant for treating and processing as measured at lease separation units and the volume of processed gas at the plant outlet, because of the removal of acid gases and liquefiable hydrocarbons, the use of gas for plant fuel, and other reasons incident to processing.

8.5 In the event Producer fails to take in kind or market individually all or any part of his or its gas or condensate after its proportionate part of storage is full and Processor is unable to market the condensate or gas,

then Processor shall have the right to dispose of such condensate or gas in any manner Processor sees fit, including the right to flare the same should such be necessary, in order to avoid curtailing or discontinuing operations of the Plant. Any proceeds received by Processor in disposing of such condensate or gas shall be credited to Producer in accordance with the terms and provisions of this agreement.

9.0 PAYMENT TO PRODUCER

9.1 As consideration for the granting of processing rights, Processor hereby agrees to pay Producer a portion of the net proceeds, as hereinafter defined, from all plant products extracted, saved, and sold from Producer's gas as determined in accordance with the following provisions:

9.1.1 The amount of payment during the month will be determined by (1) multiplying the volume of each plant product attributable to Producer's gas as set out in Section 8.2, by (2) the average monthly sales price of such plant product, and by (3) the following applicable per cent: (a) If the weighted average monthly sales price of all products is four (4¢) cents or less per gallon, by twenty (20%) per cent; (b) If the weighted average monthly sales price of all products is more than four (4¢) cents per gallon, by twenty-five (25%) per cent.

9.1.2 The average monthly sales price of each plant product shall be determined by dividing the total value invoiced for the deliveries of such plant product by the total net deliveries of the plant expressed in gallons. Total value invoiced shall be adjusted to an f.o.b. plant basis and shall include but not be limited to adjustments for (1) excess outages, impurities, and contamination claims allowed, (2) any bonuses received, (3) tank car

rentals not to exceed 3/8¢ per gallon for the propane and butanes portion of the plant products and 1/4¢ per gallon for the natural gasoline portion of the plant products, if cars are furnished by Processor in marketing such plant products, (4) a sales commission allowance not to exceed six (6%) per cent of the value of the propane and butanes portion of the plant products and 1/8¢ per gallon for the natural gasoline portion of the plant products when Processor disposes of the plant products without the services of a broker, (5) plus or minus any freight differentials received or allowed, including prepaid freight allowed, and (6) cash discounts allowed.

9.1.3 Payment shall be made by the Processor not later than the last day of each month for all gas processed hereunder during the preceding month and shall be accompanied by a statement showing full details of the account. Examination by the Producer of the books kept by Processor respecting said gas accounts shall be permitted by the Processor at any and all reasonable hours.

9.2 For each barrel of condensate and water received at the Plant and allocated to Producer, Processor shall charge Producer the amount of eighteen (18¢) cents per barrel for the receiving, handling, separation, treating, stabilization, storage, and disposal, as the case may be, of such condensate and water.

The quantity of condensate allocated to Producer for the purposes of this Section 9.2 shall be the same quantity as that determined under Section 8.1. The quantity of water allocated to Producer for the purposes of applying these charges shall be the quantity of water delivered by Producer, as measured at the outlet of the lease separation unit; provided, however, that no charge

shall be made for the first five (5) barrels of water delivered each day from each well. Processor shall furnish Producer a statement each month showing such charges for the preceding month, and Processor shall, each month, deduct such charges from the sums due Producer hereunder or shall invoice Producer each month for such charges.

9.3 If any underpayment or overpayment in any form whatsoever shall at any time be found within three (3) years after accounting, the amount of the overpayment shall be refunded or the amount of the underpayment shall be paid within thirty (30) days after final determination thereof.

10.0 TRANSFER AND WARRANTY OF TITLE, AND TAXES

Title to the plant products recovered from the gas in the Plant shall pass from Producer to Processor at the Plant as recovered. Producer warrants its title to the plant products recovered from the gas by the Plant, its title to the condensate, and that it has the right to grant to Processor the right to process the gas delivered hereunder and receive the plant products recovered in the Plant free from liens and adverse claims of every kind.

10.1 It is understood and agreed that any tax in the nature of a processing tax on plant products resulting from the processing of gas or sale of such products extracted therefrom, and any and all other duly constituted taxes or fees (excluding production, gathering, and severance taxes) now or hereafter levied, assessed, or collected on plant products extracted, saved and sold from Producer's gas, shall be borne and paid by Producer and Processor in proportion to the settlement percentage provided in Section 9.1.1. Except as provided above as to plant products, all production, gathering, severance, and processing taxes, and all other taxes or fees now or hereafter levied,

assessed, or collected on gas and condensate delivered to Processor's plant shall be borne and paid by Producer.

10.2 Producer will pay or cause to be paid all royalties, taxes and other sums due by Producer on production, gathering, severance or handling of the gas, condensate, and plant products, and Producer will indemnify and save Processor harmless against all loss, damage, and expense of every character on account of adverse claims to all such gas, condensate, and plant products or royalties, taxes, payments or other charges due thereon.

10.3 If Producer's title is questioned or involved in any action, Processor may withhold compensation due hereunder without interest up to an amount equivalent to that of the claim until title is freed from such question or such action is finally determined, or until Producer furnishes bond conditioned to save Processor harmless with sureties satisfactory to Processor.

11.0 TERM

Subject to the other provisions hereof, this Agreement shall remain in force and effect so long as Producer, its successors or assigns, any or all of them, are delivering gas from the leases under the Gas Sales Contract, or any extension, amendment, or other agreement pertaining thereto; provided, however, that if at any time the volume or quality of the gas delivered or if the volume or quality of the gas available for delivery or proposed to be delivered by Producer to Processor from any well or wells, subject to this Agreement, is unprofitable to Processor, or if for any other cause beyond Processor's control, the operation of the Plant should be rendered unprofitable, as determined in the sole discretion of Processor, (taking into consideration actual operating costs and reasonable depreciation and overhead), Processor may, upon thirty (30) days' prior written notice and the payment or tender to Producer of the

sum of Ten (\$10.00) Dollars, cancel this Agreement as to such well or wells and the same shall thereafter be of no further force or effect as to such well or wells, except as to the obligations already accrued at the effective date of cancellation.

If Processor refuses to accept gas from Producer for a period of ninety (90) days due to inability of Producer to deliver gas into Processor's gathering system at the pressures therein from time to time or failure to meet the other requirements hereof, Producer may, upon thirty (30) days' prior written notice, terminate this Agreement as to such well or wells and this Agreement shall thereafter be of no further force or effect as to such well or wells, except as to the obligations already accrued at the effective date of cancellation.

12.0 REGULATORY BODIES

This Contract shall be subject to all valid applicable State and Federal laws, and orders, directives, rules, and regulations of any governmental body or official having jurisdiction.

13.0 FORCE MAJEURE

If any party is rendered unable, wholly or in part, by force majeure or any other cause of any kind not reasonably within its control to perform or comply with any obligation or condition of this Contract, upon giving notice and reasonably full particulars to the other party or parties, such obligation or condition shall be suspended during the continuance of the inability so caused and such party shall be relieved of liability and shall suffer no prejudice for failure to perform the same during such period, provided that obligations to make payments then due hereunder shall not be suspended and the cause

of suspension (other than strikes or differences with workmen) shall be remedied so far as possible with reasonable dispatch. Settlement of strikes and differences with workmen shall be wholly within the discretion of the party having the difficulty. The term "force majeure" shall include, without limitation by the following enumeration, acts of God and the public enemy, the elements, fire, accidents, breakdowns, strikes, and any other industrial, civil or public disturbance, inability to obtain materials, supplies, permits or labor, any any laws, orders, rules, regulations, act or restraints of any government or governmental body or authority, civil or military.

14.0 PRODUCER'S REPRESENTATIVE

14.1 In order to coordinate the operation of the Plant and to further assist Producer in meeting its obligations to its Gas Purchaser, Producer hereby designates the Plant Operator as its representative and fully empowers said representative to do or perform, on behalf of Producer, the following:

14.1.1 To allocate the processed gas delivered to the Gas Purchaser or Purchasers between the Producers delivering gas to the Plant.

14.1.2 To witness tests to be made of the gas and measurement equipment made pursuant to Producer's Gas Sales Contract.

14.1.3 To deliver the processed gas in a commingled stream at the delivery point at or near the Plant outlet.

14.1.4 To receive notice of changes in the quantity of gas to be delivered to Gas Purchaser.

14.1.5 To render billings for gas delivered to Gas Purchaser.

14.2 Processor will advise Producer of the requests of the Gas Purchaser from time to time setting forth the quantities of gas to be delivered

by Producer and other Producers delivering gas to the Plant under the respective Gas Sales Contracts.

14.3 Where the gas delivered by Producer to Processor is produced from a well or wells subject to a Unit Agreement, Communitization Agreement, or Operating Agreement, then Producer does hereby designate the respective operator of each such well, as to Producer's gas and condensate produced therefrom, as Producer's agent and representative to give and receive notices of, and to make and witness, tests to be made of the gas, condensate, and plant products and measuring equipment; to receive, receipt, pay, and make adjustments of any sums or compensation due hereunder; to receive monthly allocation statements showing disposition of gas, condensate and plant products; to receive notices of requests by Plant Operator or by Gas Purchaser made through Plant Operator from time to time concerning the quantity of gas to be delivered by Producer and other Producers under their respective Gas Sales Contracts; Processor shall be fully protected in acting in reliance upon any and all acts and things done or performed or agreements made with respect to the aforesaid matters by said Producer's representative as fully and effectively as though Producer had done, performed, made or executed the same. When and if a change of the well operator occurs, Producer shall promptly notify Processor thereof, and such new operator shall succeed the former well operator as Producer's agent and representative for the purposes and with the same authority as herein provided for the former well operator.

15.0 NONDISCRIMINATION

In connection with the performance of operations under this agreement, the Processor agrees to comply with all of the provisions of Section 301 (1)

to (7), inclusive, of Executive Order 10925 (26 F. R. 1977), as amended, which are hereby incorporated by reference in this agreement.

16.0 RESERVATIONS OF PRODUCER

16.1 Producer expressly reserves for itself the following prior rights with respect to the gas subject hereto:

16.1.1 The right to deliver to lessors under any of the leases covered hereby, gas required in kind to meet the requirements of lessee's obligations under such leases to furnish gas to such lessors.

16.1.2 The right to use gas reasonably required to develop and operate Producer's properties covered hereby.

16.1.3 The control, management, and operation of the properties covered hereby shall be and remain the exclusive right of Producer. Producer may, in its sole uncontrolled discretion and as it deems advisable, drill new wells, repair or rework old wells, renew or extend in whole or in part any lease or unit, and abandon any well or surrender, terminate, or release all or any part of any lease not deemed by Producer capable under normal production methods of producing gas in paying or commercial quantities.

16.1.4 The right from time to time to alter any unit by increasing or decreasing the surface acreage contained therein or to pool or combine any lease or unit or any part thereof with other properties or to include in any unit any interest in lands covered by such unit not theretofore included in such unit; and, in such event, this Agreement shall apply only to the interest of Producer in the unit or units and the gas attributable thereto, but only in so far as such interest is attributable to lands covered hereby.

17.0 MISCELLANEOUS

17.1 No waiver by Producer or Processor of any default of the other under this Agreement shall operate as a waiver of any future default, whether of like or different character.

17.2 This Agreement shall bind and inure to the respective successors and assigns of the parties hereto, but no assignment shall relieve either party's obligations hereunder without written notice to the other party or parties, but in no event shall the assigning party be relieved of accrued obligations.

17.3 Producer, in so far as it has the right to do so, hereby grants and conveys unto Processor all necessary pipeline and other rights of way and easements in, on, and across its lands and leases for laying, maintaining, operating, repairing, changing, and removing the gas gathering system, meter loops, and other equipment, and for all other purposes under this agreement so long as such purposes do not unreasonably interfere with lease operations.

18.0 NOTICES

18.1 Every notice and request provided for in this Contract shall be in writing or by telegram and deemed sufficiently given when deposited in the United States mail, postage prepaid, or delivered to Western Union Telegraph with charges prepaid, as the case may be, and directed to the party to whom given at the address listed below:

PROCESSOR: Marathon Oil Company
P. O. Box 3128
Houston, Texas 77001

PRODUCER:

or at such other post office address as such party shall, from time to time, designate as the address for such purpose by letter or telegram addressed to the other party or parties.

18.2 Routine communication, including statements and bills, shall be considered as duly delivered when deposited in the United States mail, postage prepaid to the appropriate address above specified.

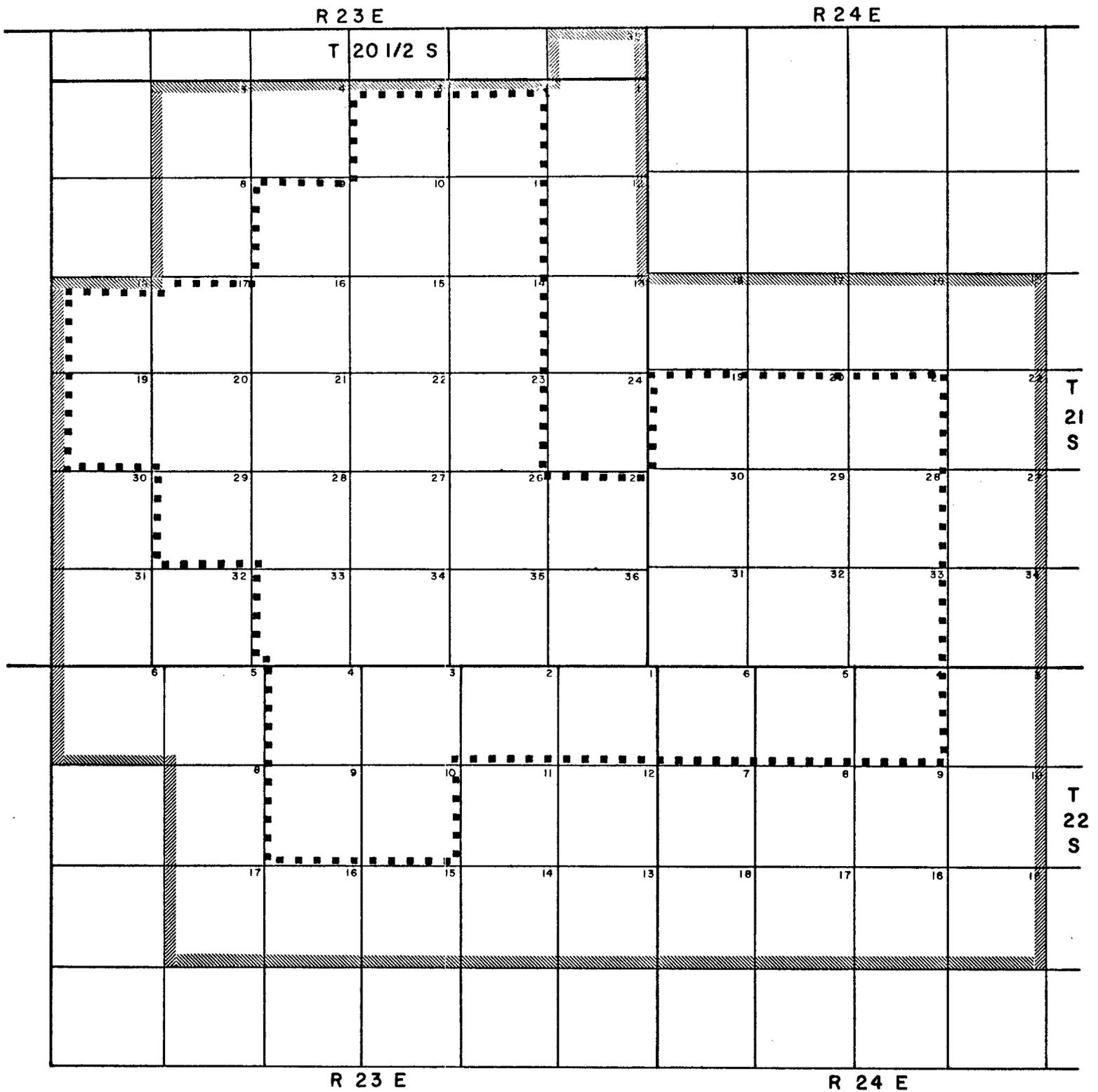
IN WITNESS WHEREOF, this Agreement is executed in two (2) counterparts, each of which shall be an original, as of the date first above mentioned.

MARATHON OIL COMPANY

By _____

PROCESSOR

PRODUCER



LEGEND

- ▨ Plant Area
- ■ ■ Productive Acreage

EXHIBIT "A"
 SHOWING PLANT AREA
 INDIAN BASIN GAS PLANT
 EDDY COUNTY, NEW MEXICO

EXHIBIT "B"

1. Condensate Allocation

(a) Formula:

$$C = X/Y \times Z$$

C = Quantity of stabilized condensate allocated to Producer.

X = Quantity of condensate delivered by Producer as measured at outlet of lease separation unit multiplied by shrinkage factor "S".

Y = Quantity of condensate delivered by all Producers from lease separation units outlet (each of such quantities having been multiplied by a shrinkage factor "S").

Z = Total quantity of stabilized condensate produced and saved in condensate storage tanks at plant.

*S = The current Shrinkage Factor for the condensate produced from the individual separator as determined by the calibrated "shrinkage bomb" method.

2. Plant Products Allocation

(a) Formula:

$$P = \frac{X_1 Y_1}{\sum X_a Y_a} \times p$$

P = Volume of particular plant product attributable to Producer's gas.

X₁ = Mol percent of particular plant product contained in gas delivered by Producer at outlet of lease separator unit as determined from current analysis of samples.

Y₁ = Volume of gas delivered by Producer as measured at outlet of lease separation unit.

X_a Y_a = Sum of X₁ Y₁ and X₂ Y₂, X_n Y_n (the product of like mol percent and volume of each individual producer delivering gas to Plant for processing).

p = Volume of particular plant product saved and sold.

3. Processed Gas Allocation

(a) Formula:

$$G = \frac{X_1 Y_1}{X_a Y_a} \times Z$$

G = Quantity of processed gas allocated to Producer.

X_1 = Mol percent of nitrogen, methane, and ethane contained in gas delivered by Producer as measured at outlet of lease separation unit as determined from current analysis of samples.

Y_1 = Volume of gas delivered by Producer as measured at outlet of lease separation unit.

$X_a Y_a$ = Sum of $X_1 Y_1$ and $X_2 Y_2 \dots X_n Y_n$ (product of like mol. per cent and volume for each individual Producer delivering gas to Plant for processing).

Z = Volume of processed gas sold.



MARATHON OIL COMPANY

PRODUCTION - UNITED STATES AND CANADA

HOUSTON DIVISION

J. O. TERRELL COUCH
DIVISION ATTORNEY

JOHN H. BEVAN, JR.
WARREN B. LEACH, JR.
JACK FARISS
ATTORNEYS

SOUTHERN NATIONAL BANK BUILDING
P. O. BOX 3128
HOUSTON, TEXAS 77001

April 15, 1965

Re: Indian Basin Gas Plant
Indian Basin Area
Eddy County, New Mexico

New Mexico Oil Conservation Commission
P. O. Box 871
Santa Fe, New Mexico

Attention: Mr. Dan S. Nutter
Chief Engineer

Dear Mr. Nutter:

As you will recall, Mr. Warren Leach and I recently reviewed with you and representatives of the Land Commissioner's office our proposed plans for the construction by various operators of a gas plant and gathering system for the treating and processing of gas in the Indian Basin Area. Marathon, as the Plant Operator, is now preparing the contracts for the construction of the Plant and the gas gathering system, and, subject to the approval of the well operators, we will soon be in position to order the lease facilities and equipment.

As advised in our meeting in Santa Fe last January, the United States Geological Survey in Roswell had given tentative approval of our plans for the handling of the gas and condensate to be delivered to the plant. Further, it was our understanding at the time of our meeting that the Land Commissioner's office would give their approval to our proposed operations, subject to your approval.

As stated at our meeting with you, we did not feel that the proposed procedure for handling the gas and condensate came within the coverage of either the commingling or ACT rules of the Commission. You requested additional information before you made any determination as to whether or not the approval of the Commission would be required as to the proposed procedure for handling the gas and condensate.

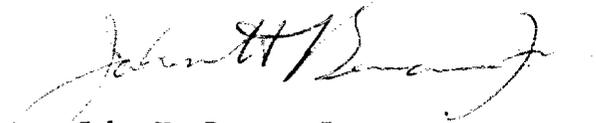
Therefore, for your further consideration in connection with this matter, I am enclosing a copy of a detailed summary of our proposed operations prepared by Mr. Ellis E. Wind, a petroleum engineer in our Houston office, who was present at our meeting with you. Also enclosed

April 15, 1965

are copies of schematic drawings of the proposed lease and plant facilities to be used in place of those left with you. The lease and plant facilities are shown on separate drawings for the purpose of clarity. A copy of the Agreement for Construction and Operation of the Indian Basin Gas Plant and the Processing Agreement are also enclosed for your use in this connection. These agreements may be subject to some minor changes, but we now feel that these may be considered to be final drafts.

We will appreciate your further consideration of this matter at your early convenience, and if you need any additional information, please advise me.

Yours very truly,

A handwritten signature in cursive script, appearing to read "John H. Bevan, Jr.", written in dark ink.

John H. Bevan, Jr.

JHB:LL
Enc.